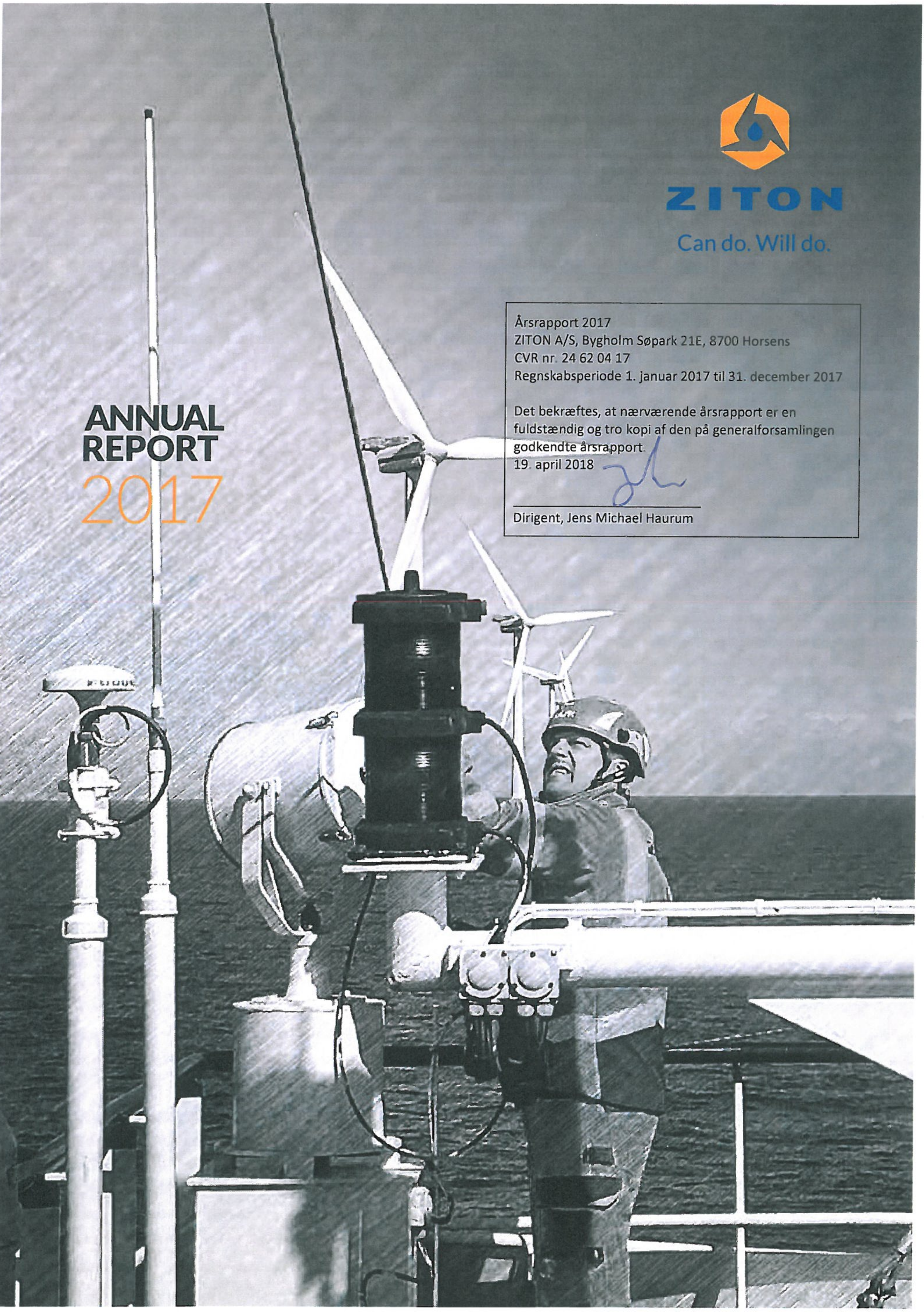

ZITON

Can do. Will do.

ANNUAL REPORT 2017

Årsrapport 2017
ZITON A/S, Bygholm Søpark 21E, 8700 Horsens
CVR nr. 24 62 04 17
Regnskabsperiode 1. januar 2017 til 31. december 2017

Det bekræftes, at nærværende årsrapport er en fuldstændig og tro kopi af den på generalforsamlingen godkendte årsrapport.
19. april 2018

Dirigent, Jens Michael Haurum

COMPANY
ZITON A/S
Bygholm Søpark 21E
8700 Horsens
Denmark

WEBSITE
www.ziton.eu

PRODUCTION
Datagraf
Communications A/S

13

YEARS AT SEA

Svenning L. Dybdal,
Master,
J/U WIND

“Together we succeed.”

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ZITON
AT A GLANCE

ZITON is the market-leading service provider within offshore wind operations & maintenance. ZITON has carried out more than 600 service interventions at 46 wind farms.

ZITON's primary business is to provide jack-up services for major component replacements, including gearboxes, blades, generators, transformers, main bearings, main shafts and full rotors.

In addition, ZITON provides jack-up services such as installation support, blade repair and decommissioning of turbines, foundations and met masts.

We offer our customers full-service solutions with maritime project planning & execution, lift planning & execution, specialised tools & lifting equipment and technicians in addition to jack-ups with experienced crews. Our customers are leading wind turbine manufacturers and wind farm owners.

ZITON owns and operates three jack-up vessels:
- J/U WIND SERVER is the first jack-up vessel purpose built to provide offshore wind operations & maintenance services
- J/U WIND PIONEER is a converted jack-up vessel adapted to the offshore wind industry
- J/U WIND has the longest proven track record in the industry in terms of major component replacements

ZITON has about 75 employees offshore, and about 25 onshore at the office in Horsens, Denmark.

> ZITON is a strategic partner to Siemens Gamesa Renewable Energy. This entails more than providing a product or a service. It is a mutual commitment to continual improvement and developing future solutions. As such the ZITON/SGRE business relationship is both deep and trustful.
>
> Rene Cornelis Wigmans,
> Head of Global Maritime and Aviation Solutions,
> Siemens Gamesa Renewable Energy

FOUR MAIN PHASES OF AN OFFSHORE WIND FARM

Orange shading indicates services provided by ZITON.

	SURVEY AND DEVELOPMENT (typically 2-5 years)		CONSTRUCTION (around 2 years)		O&M (20-25 years)		DECOMMISSIONING (1-2 years)	
SERVICES	Environmental survey	Geophysical survey	Turbine foundation installation	Substation and cable installation	Remote monitoring	Major component replacement	Turbine foundation decom-missioning	Met mast decom-missioning
	Geotechnical survey	Installation of met mast	Turbine installation	Installation support	O&M routines	Blade repair	Turbine decom-missioning	Substation decom-missioning

ZITON provides jack-up services for replacement of the major components shown in the illustration.

HIGHLIGHTS
OF THE YEAR

In this section, ZITON CEO Thorsten Jalk comments on the performance of 2017 and the outlook for the coming year.

Q&A

Q: What were your main priorities in 2017?
A: At the start of the year, we completed a strategy development process to define our direction for the coming years. We had intense and thorough discussions of what comprises our distinctive competences, which markets to compete in and how to compete. In other words, we laid out ZITON's strategic direction for the coming years.

Of course our day-to-day operations will always be a priority. The J/U WIND SERVER was on-hire for all of 2017, operating on charter with Siemens Gamesa. Our two other vessels, J/U WIND PIONEER and J/U WIND, also continue to perform well. I'm pleased to say that we have the industry's largest fleet of dedicated O&M jack-ups for the offshore wind industry.

Q: What are the key elements of your strategy?
A: When we developed our strategy, we prepared a thorough market analysis and hired consultants to interview our customers to get their input. Based on the analysis results, we evaluated and prioritised different strategic options. The key elements of our strategy is to continue to grow together with our customers as turbines become larger, and also to offer value added services demanded by our customers, expand geographically and to digitalise our business.

Q: What precisely are value added services?
A: 'Value added services' is something we continuously define together with our customers. Obviously, they are eager to reduce the costs of operating their wind farms and we can, for example, help by preparing lifting plans for major component replacement. More and more often, customers ask us to provide a lifting supervisor to oversee that the lift is carried out according to plan. We are gradually expanding the range of services we can offer, and increasingly, customers ask for a full-service solution with maritime project planning & execution, lift planning & execution and specialised tools & lifting equipment. Through ZITON Contractors, which we established in February 2017, we can also provide technicians to work on the turbines. This is a service that has attracted much more interest from customers than we had anticipated.

Q: When do you plan to purchase a larger vessel?
A: Clearly, today's new turbines have twice the capacity they had two or three years ago, and three times more than ten years ago. As turbines become larger and larger, we will need larger vessels to service them. One of the discussions we had during our strategy process was how large a vessel we would need and when. You don't want to be too early, nor too late when defining the vessel size that will match the market requirements. However, we must not forget that a larger vessel will primarily benefit our customers, so customer commitment is necessary to build a case for a larger vessel.

Q: Where do you expect to expand geographically?
A: We are still exploring market opportunities in different parts of the world, but certainly we have set our eyes on Asia and the USA. We see both as upcoming markets in the next few years. At ZITON, we have many years' experience in providing O&M services for offshore wind in Europe. That means we have a highly attractive value proposition for international markets, because through us they can jump the learning curve by 10-15 years.

Q: Digitalisation seem to be on everyone's mind these days – how will digitalisation affect at ZITON?
A: Obviously, we are not a company that sells products or services on the internet. As such, digitalisation means something different to us than it might to other companies. Digitalisation to us involves enabling smooth collaboration with customers and automating our internal processes.

The ZITON Portal enables us to exchange project documentation seamlessly with our customers. We use a cloud-based solution on which customers can interact with us using an ordinary

Thorsten Jalk, CEO, ZITON.

browser. This is a very cost-effective solution that allows customers to access all documentation in one place.

For our internal processes we maintain all our safety and quality management documentation on the ZITON Portal, for our own and for our customers' convenience. Furthermore, in 2017 we implemented a new ERP system that functions as the backbone of our internal finance processes.

Over the years, we have developed a business intelligence system that provides us with unique insights into the market for offshore wind farms, failure rates, etc. In it we store data from major component replacements performed over more than ten years. Undoubtedly, we have the most comprehensive market insights in the industry.

> "ZITON's know-how and their dedication to main component replacement makes them an appreciated partner to Vattenfall's offshore wind business."
>
> Magnus Jansson, Project manager, Business Development, Vattenfall Wind Power.

J/U WIND SERVER

TECHNICAL SPECIFICATIONS

GENERAL INFORMATION

Length, overall: 79.5 m
Width, overall: 32.3 m
Hull depth: 7.4 m
Pre-loading capacity, active: 3,000 t/leg
Elevating speed: 1.0 m/minute
Transit speed: approx. 9 knots
Accommodation: 24 single cabins for charterer and 15 single cabins for crew

CARGO CAPACITY

Payload: 1,760 t
Main deck area: Approx. 1,200 m^2

MAIN CRANE AND LIFTING CAPACITY

Main crane: Liebherr BOS 14000
Main crane boom length: 87 m
Main crane max. lifting capacity: 400 t at 20 m radius at 96 m height above deck

OPERATING CONDITIONS

Service: Unrestricted (as per DNV rules)
Endurance: 30 days
Jacking operations - wave height: Up to 2.6 m
Jacking operations - wind: Up to 15 m/s
Jacking operations - tidal current: Up to 3 kn.
Jacking operations – max. depth: Up to 45 m

J/U WIND PIONEER

TECHNICAL SPECIFICATIONS

GENERAL INFORMATION

Length, overall: 56.0 m
Width, overall: 28.0 m
Hull depth: 4.5 m
Pre-loading capacity, active: 1,200 t/leg
Elevating speed: 0.5 m/minute
Transit speed: 5 knots (towed)
Accommodation: 22 single cabins for charterer and 12 single cabins for crew

CARGO CAPACITY

Payload: 650 t
Main deck area: Approx. 530 m^2

MAIN CRANE AND LIFTING CAPACITY

Main crane: Liebherr BOS 7500
Main crane boom length: 78 m
Main crane max. lifting capacity: 150 t at 19 m radius at 78 m height above deck

OPERATING CONDITIONS

Service: Unrestricted (as per DNV rules)
Endurance: 30 days
Jacking operations - wave height: Up to 1.35 m
Jacking operations - wind: Up to 15 m/s
Jacking operations - tidal current: Up to 2.5 kn.
Jacking operations – max. depth: Up to 34 m

J/U WIND
TECHNICAL SPECIFICATIONS

GENERAL INFORMATION
Length, overall: 55.1 m
Width, overall: 18.1 m
Hull depth: 4.0 m
Pre-loading capacity, active: 600 t/leg
Elevating speed: 0.7 m/minute
Transit speed: 6 knots
Accommodation: 20 single cabins for charterer and 11 single cabins for crew

CARGO CAPACITY
Payload: 220 t
Main deck area: Approx. 430 m^2

MAIN CRANE AND LIFTING CAPACITY
Main crane: Liebherr LTR 11200
Main crane boom length: 28-110 m (telescopic)
Main crane max. lifting capacity: 40 tons at 20 m radius at 100 m height above deck

OPERATING CONDITIONS
Service: Weather restricted, site specific
Endurance: 30 days
Jacking operations - wave height: Up to 0.75 m
Jacking operations - wind: Up to 10 m/s
Jacking operations - tidal current: Up to 1 kn.
Jacking operations – max. depth: Up to 35 m

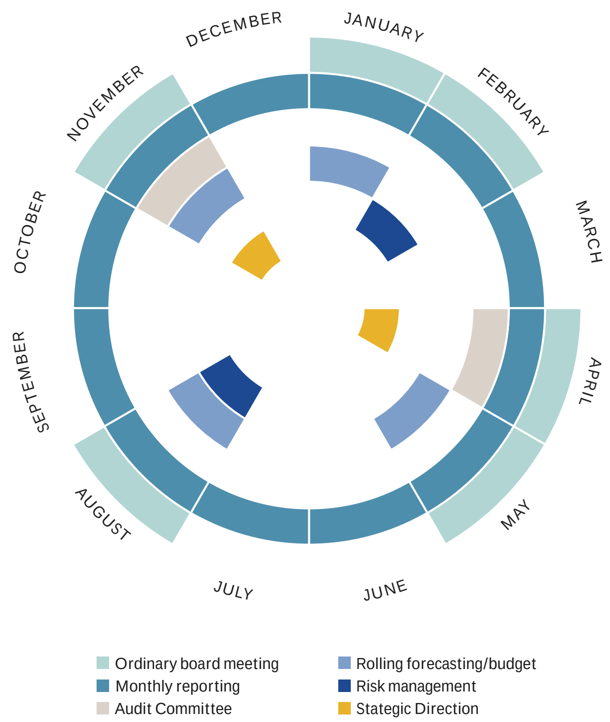
MANAGEMENT AND BOARD

ZITON's governance structure aims to support the Company's strategic development and long-term value creation.

RESPONSIBILITIES OF THE BOARD

Pursuant to Danish legislation, ZITON has a two-tier management structure consisting of the Board of Directors and the Executive Management Team, with no individual being a member of both. The division of responsibilities between the Board of Directors and the Executive Leadership Team is outlined in the Rules of Procedure for the Board of Directors.

In 2017, the Board of Directors held a total of six board meetings. The Board of Directors has established an Audit Committee consisting of the entire Board of Directors. The annual cycle of board meetings, illustrated below, ensures that the Board regularly reviews all topics relating to strategic development, risk management, operational and financial performance and compliance.



RESPONSIBILITIES OF THE AUDIT COMMITTEE

The Board of Directors has the overall responsibility for ZITON's control environment. The Board of Directors has established an audit committee consisting of the entire Board of Directors. The Audit Committee is responsible for monitoring on an ongoing basis the internal control and risk management systems related to the financial reporting process. The Board of Directors approves the overall policies and procedures in key areas of financial reporting. ZITON has implemented formalised processes for its internal and external financial reporting.

DIVERSITY IN BOARD OF DIRECTORS

ZITON's Articles of Association require the Board of Directors to have from three to six members elected at the Annual General Meeting. Currently, the Board has six members. They are elected for terms of one year. Nominations for the Board of Directors are based on an evaluation of factors such as competencies, diversity, independence and prior performance. ZITON recognises the value of diversity, including gender related diversity. The Board of Directors has set targets for the share of the underrepresented gender on the Board of Directors. The target is for an increase from 0% (0 out of 6) to 33% (2 out of 6).

The measurement period runs from the annual general meeting held in April 2017 to the annual general meeting to be held in April 2020. The efforts to identify and nominate a suitable candidate of the underrepresented gender for the Board of Directors for the Annual General Meeting in April 2018 were unsuccessful. Consequently, no progress has been achieved towards this target.

DIVERSITY IN OTHER MANAGEMENT LEVELS

The Board of Directors has drawn up a policy for increasing the share of the underrepresented gender at other management levels. ZITON aims to employ the best candidates, and a candidate's qualifications must therefore always be the decisive factor in external and internal recruitment processes. It is our policy to provide equal opportunities for men and women, and we seek to have both genders presented as candidates in all recruitment processes. ZITON has had relatively little success in increasing the proportion of women at other management levels. We believe this is due to the general employment patterns in the offshore wind and shipping industries, where men are generally overrepresented.

EXECUTIVE MANAGEMENT TEAM

THORSTEN JALK
Chief Executive Officer
Appointed CEO in 2011
Born 1967

Mr Jalk has almost 20 years of experience from the offshore wind industry and held numerous high-level positions prior to being appointed CEO of ZITON A/S.
Previous engagements: Mr Jalk has experience from being an owner and senior consultant with WayPoint Consult ApS in Denmark. During the period from 2000 to 2011, Mr Jalk worked for A2SEA A/S where he held the following positions: head of Service Solutions, director of Marine Operations and logistics manager. Mr Jalk served in the Danish armed forces from 1987 to 2000.
Educational background: Master of Transport and Maritime Management (MTMM) from the University of Southern Denmark, 2010. In addition, Mr Jalk has completed the Executive Management Programme at INSEAD, 2016.

JENS MICHAEL HAURUM
Chief Financial Officer
Appointed CFO in April 2015
Born 1966

Previous engagements: Mr Haurum was CFO at Borg Automotive A/S and head of group finance and investor relations at BioMar Group A/S and has also held various positions in the financial services industry.
Educational background: Mr Haurum holds an HD Graduate Diploma in Business Administration (Accounting) from Aarhus University, an HD Graduate Diploma in Business Administration (International Management) from Copenhagen Business School and a Master of Business Administration from Henley Business School in the UK.

RASMUS MÜHLEBACH
Chief Legal Officer
Appointed CLO in April 2015
Born 1980

Mr. Mühlebach joined ZITON in June 2012 as Chief Financial Officer and was appointed Chief Legal Officer in April 2015.
Previous engagements: Prior to joining ZITON, Mr Mühlebach held positions as CFO and business developer with NordEstate A/S.
Educational background: Mr Mühlebach graduated in 2007 with a Master of Science in Business Administration and Commercial Law and a Bachelor of Science in Economics and Corporate Law from the Aarhus School of Business (Aarhus University).

BENT THAMBO JENSEN
Chief Commercial Officer
Appointed CCO in September 2015
Born 1972

Previous engagements: Prior to joining ZITON, Mr Jensen held positions as a key account manager with A2SEA A/S, sales and marketing manager with Statoil Gazelle A/S, commercial sales manager at Siemens Wind Power A/S and as regional manager with Energi Danmark A/S.
Educational background: MA in Business, Language and Culture (cand. negot) from Odense University.

MADS ALBÉR
Chief Operating Officer
Appointed COO in April 2015
Born 1970

Previous engagements: Prior to joining ZITON, Mr Albér worked as an operations manager with Fred. Olsen Windcarrier. He worked for ZITON from 2008 to 2011 as Master Mariner (2009-2011) and HSEQ manager (2008-2009). Before joining ZITON, Mr Albér held positions as SQE manager (2008) and marine superintendent (2006-2008) with the Clipper Group.
Educational background: Mr Albér is a Master Mariner and holds a degree in navigation from Marstal Navigationsskole.

BOARD OF DIRECTORS

VAGN LEHD MØLLER
Chairman of the board since March 2012
Born 1946
Appointed by BWB Partners

Current engagements: Mr Møller is Chairman of the Board of Directors of ZITON A/S. He is also a member of the boards of directors of Jack-Up InvestCo 3 Plc and Costamare Inc.
Previous engagements: Mr Møller has worked his entire career in different positions with A.P. Møller-Maersk. He has also held numerous positions as chairman or member of the boards of directors of a number of A.P. Møller-Maersk affiliated companies.
Educational background: Management Studies at CEDEP (European Center for Executive Development), INSEAD and the University of Western Ontario.

ESBEN BAY JØRGENSEN
Member of the board since January 2012
Born 1969
Appointed by BWB Partners

Current engagements: Mr Jørgensen is a founder and partner of BWB Partners. He serves as a member of the boards of directors of Hydratech Industries A/S, SH Group A/S, System Frugt A/S and Qubiqa Esbjerg A/S.
Previous engagements: Prior to founding Odin Equity Partners (today known as BWB Partners) in 2005, Mr Jørgensen worked with the consultancy firm AlixPartners. Before that, Mr Jørgensen spent some eight years with The Boston Consulting Group.
Educational background: Master of Science in Economics and Business Administration from Copenhagen Business School, McGill University, Montreal, and Università degli Studi di Siena, Italy.

LARS THORSGAARD JENSEN
Member of the board since January 2012
Born 1974
Appointed by BWB Partners

Current engagements: Mr Jensen is Partner at BWB Partners. He serves as a member of the boards of directors of Heatex AB and SSG Group A/S.
Previous engagements: Mr Jensen has a background within investment banking. He previously worked for six years as a director at Carnegie Investment Banking in Copenhagen and for two years with Morgan Stanley Investment Banking in London.
Educational background: Master of Science in Management & Economics (cand. oecon) from Aarhus University.

OVE C. ERIKSEN
Member of the board since January 2008
Born 1960
Appointed by Dansk Bjergning og Bugsering Holding ApS

Current engagements: Mr Eriksen serves as a director of Dansk Bjergning og Bugsering A/S.
Previous engagements: Founded Dansk Bjergning og Bugsering A/S in 1989. Founded DBB Jack-Up Services A/S in 2008.
Educational background: Electrician.

MORTEN MELIN
Member of the board since April 2017
Born 1968
Appointed by BWB Partners

Current engagements: Mr Melin serves as Executive Vice President, Construction of Northland Power Inc.
Previous engagements: Mr Melin has held a number of positions with both wind turbine manufacturers and utilities. Most recently, he served as Vice President EPC & Construction Management at Ørsted and as a member of the board of A2SEA A/S. Previously served as Vice President Project & Technology at MHI Vestas Offshore.
Educational background: BSc. Mechanical Engineering from Aarhus Teknikum. Advanced Corporate Finance Programme from London Business School and Executive Leadership Development from INSEAD

NIELS ØRSKOV CHRISTENSEN
Member of the board since December 2016
Born 1943
Appointed by OY Finans ApS

Current engagements: Mr Ørskov Christensen serves as a chairman of the board of directors of Orskov Yard A/S and OY Finans ApS.
Previous engagements: Mr Ørskov Christensen has worked his entire career in the shipyard industry, both as a naval architect and as a CEO. He is a former chairman of the Danish Shipyard Industry Association (Skibsværftsforeningen – now Danske Maritime), a position he held for several years while also serving on the board of representatives of Danish Ship Finance (Danmarks Skibskreditfond).
Educational Background: Naval architect.

OWNERSHIP STRUCTURE

THE OWNERSHIP STRUCTURE AND CURRENT SHAREHOLDINGS IN THE COMPANY ARE SET OUT BELOW

Shareholder	Ownership in ZITON A/S
JACK-UP HOLDING A/S (BWB Partners)	59.5 %
DANSKE BJERGNING OG BUGSERING HOLDING APS (Ove Eriksen)	25.1 %
OY FINANS APS (Orskov Yard)	14.8 %
MANAGEMENT/ CHAIRMAN	0.6 %

ZITON A/S

JACK-UP HOLDING A/S - BWB PARTNERS

BWB Partners is an independent owner-led Danish investment firm investing in small and medium-sized companies with a turnover of up to EUR 100 million and a strong growth potential.

BWB Partners was founded in 2015 in connection with the reorganisation of the former Odin Equity Partners' funds. As part of this reorganisation the investor base was renewed, a generational change in the management of BWB Partners was carried out, and investors added further commitments to the funds. BWB Partners manages two funds, investing on behalf of Danish and international investors. Both are active funds and open for new investment opportunities. BWB Partners I has a committed capital of EUR 175 million, while BWB Partners II has a capital commitment of EUR 130 million. ZITON is an investment held in BWB Partners II.

The investor base at BWB Partners includes Danish and international institutional investors and dedicated private-equity investors (fund-of-funds). BWB Partners II consists of Danish pension funds (15.1%), foreign financial investors (83.7%) and other foreign investors (1.2%).

BWB Partners takes an active ownership approach in respect of its portfolio companies. The aim is to drive each company towards becoming an attractive medium-sized business with a strong market position and healthy earnings. As achieving such transformation of a company can be a major task, the investment horizon is usually four to seven years.

BWB Partners is a member of the DVCA trade association and follows DVCA guidelines on corporate governance and recommendations on responsible ownership. Consequently, ZITON is also subject to the DVCA's corporate governance guidelines. For further information, please visit the DVCA website at www.dvca.dk.

DANSK BJERGNING OG BUGSERING HOLDING APS

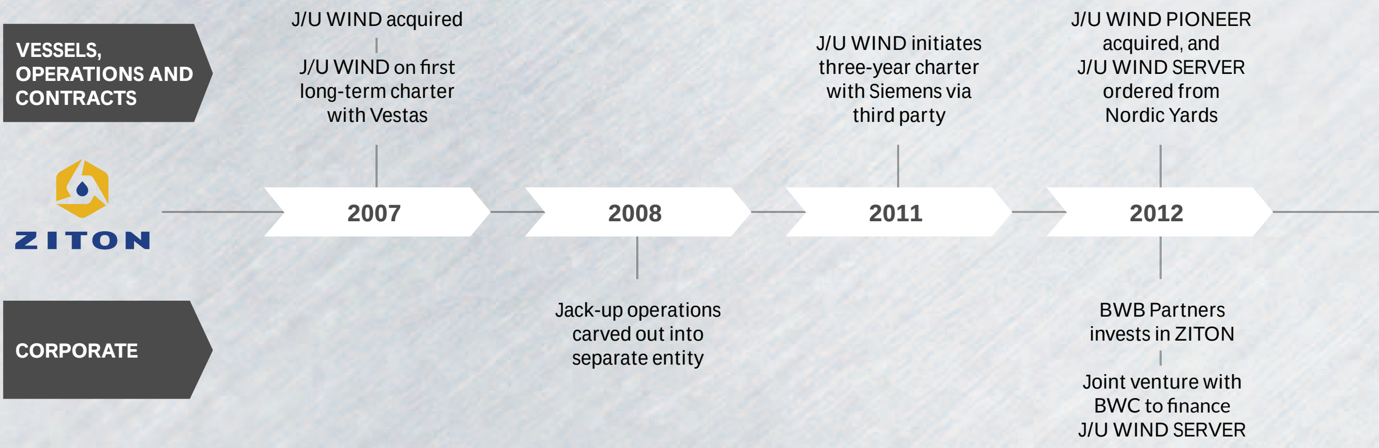
In addition to its shareholding in ZITON A/S, the company owns Dansk Bjergning og Bugsering A/S, an ROV operations company.

OY FINANS APS

OY Finans ApS is part of the Orskov Group, which owns and operates Orskov Yard in Frederikshavn, Denmark, where the conversion of J/U WIND PIONEER took place. The yard employs 200 people and comprises three docks.

HISTORY
OF THE COMPANY

ZITON has its roots in the offshore wind industry dating back to 2007 when the vessel J/U WIND was acquired. ZITON has some of the most experienced employees in the world within offshore wind.



LEGAL STRUCTURE AND VESSEL OWNERSHIP

ZITON Group consists of the parent company ZITON A/S, the wholly-owned subsidiaries Jack-Up InvestCo 2 A/S and ZITON Contractors A/S, as well as a 50 per cent ownership interest of Jack-Up InvestCo 3 Plc. in a joint venture with Blue Water Capital S.A. In accordance with IFRS, Jack-Up InvestCo 3 Plc. is fully consolidated in the accounts of ZITON A/S, as explained in note 1.1 to the financial statements. Blue Water Capital S.A. is an investment company whose owner is Slim Bouricha. Mr. Bouricha serves on the board of Jack-Up InvestCo 3 Plc.

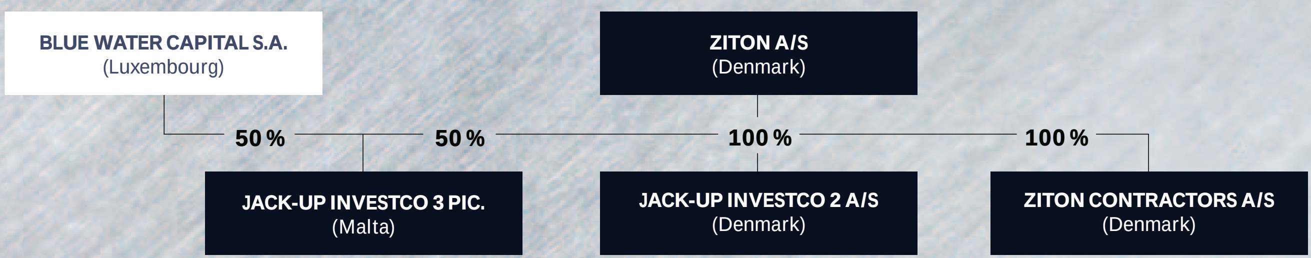
J/U WIND is wholly-owned by ZITON A/S. J/U WIND PIONEER is owned by Jack-Up InvestCo 2 A/S. J/U WIND SERVER is owned by Jack-Up InvestCo 3 Plc. When J/U WIND SERVER was delivered in December 2014, ZITON A/S entered into a 10-year modified BIMCO standard bareboat charter agreement with Jack-Up InvestCo 3 Plc. ZITON A/S is responsible for operating all three vessels commercially, is a party to all external contracts and employs all crew.

Dansk Bjergning og Bugsering A/S was founded in 1989 by Ove Eriksen. In 2007, that company acquired the vessel J/U WIND, and in 2008 the jack-up operations were carved out into a separate company, which had J/U WIND as part of its assets.

BWB Partners invested in the Company in 2012, appointing Thorsten Jalk as CEO. The company has since accelerated both commercially and through the acquisition of another two vessels, J/U WIND PIONEER and J/U WIND SERVER.

2013	2014	2015	2016	2017
	3-year charter signed for J/U WIND SERVER with Siemens Wind Power	J/U WIND SERVER operational in March 2015 and J/U WIND PIONEER in September 2015	J/U WIND SERVER initiates 3-year charter with Siemens Gamesa Renewable Energy	
			Framework agreement with Ørsted with duration to March 2019	
	1-year framework agreement with MHI Vestas	2-year extension of agreement with MHI Vestas	3-year framework agreement with Vattenfall	Extension of agreement with MHI Vestas until futher notice
	New equity and issuance of EUR 40 million bond	Issuance of EUR 100 million bond	DBB Jack-Up Services A/S changes name to ZITON A/S	Foundation of ZITON Contractors A/S

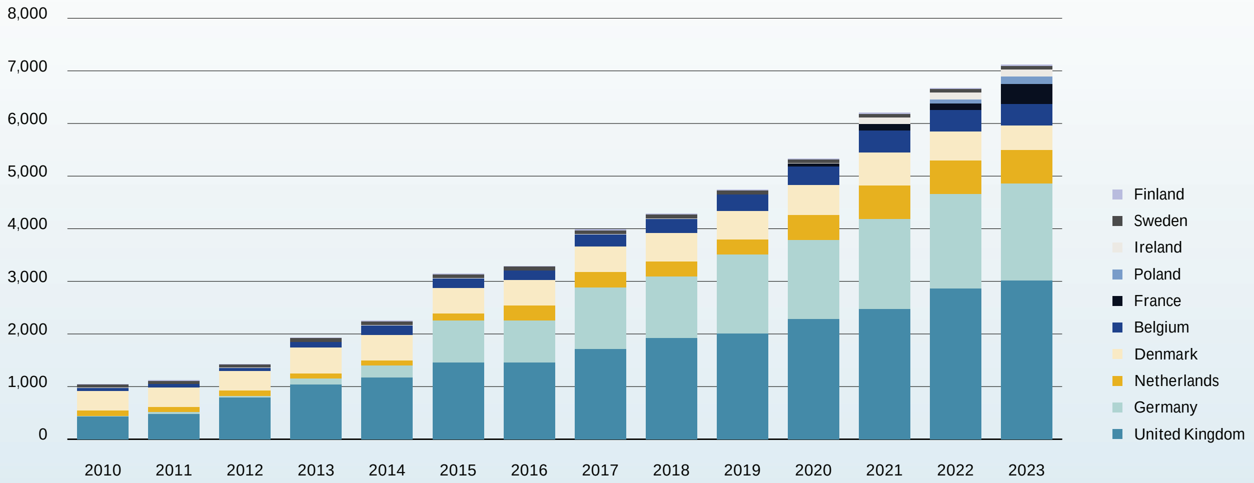
LEGAL STRUCTURE OF ZITON



MARKET TRENDS

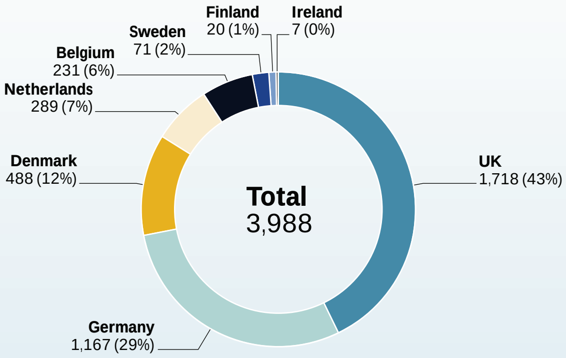
The offshore wind industry has grown tremendously in recent years. This trend is expected to drive the continuing demand for O&M services. The illustrations below form part of our proprietary market insights.

Expected growth in the number of turbines installed in Europe
Turbines grid connected at year end



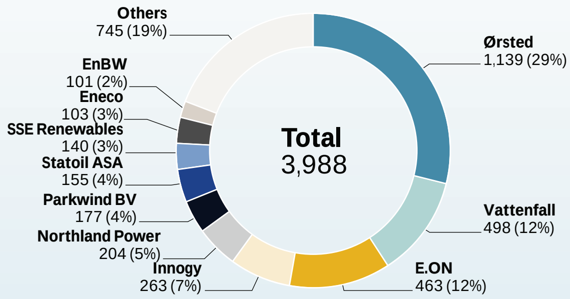
- The number of turbines installed in northern Europe is projected to grow by 9% annually over the next six years
- Strong growth projected in the UK and Germany

Country distribution
Turbines installed in Europe, end 2017



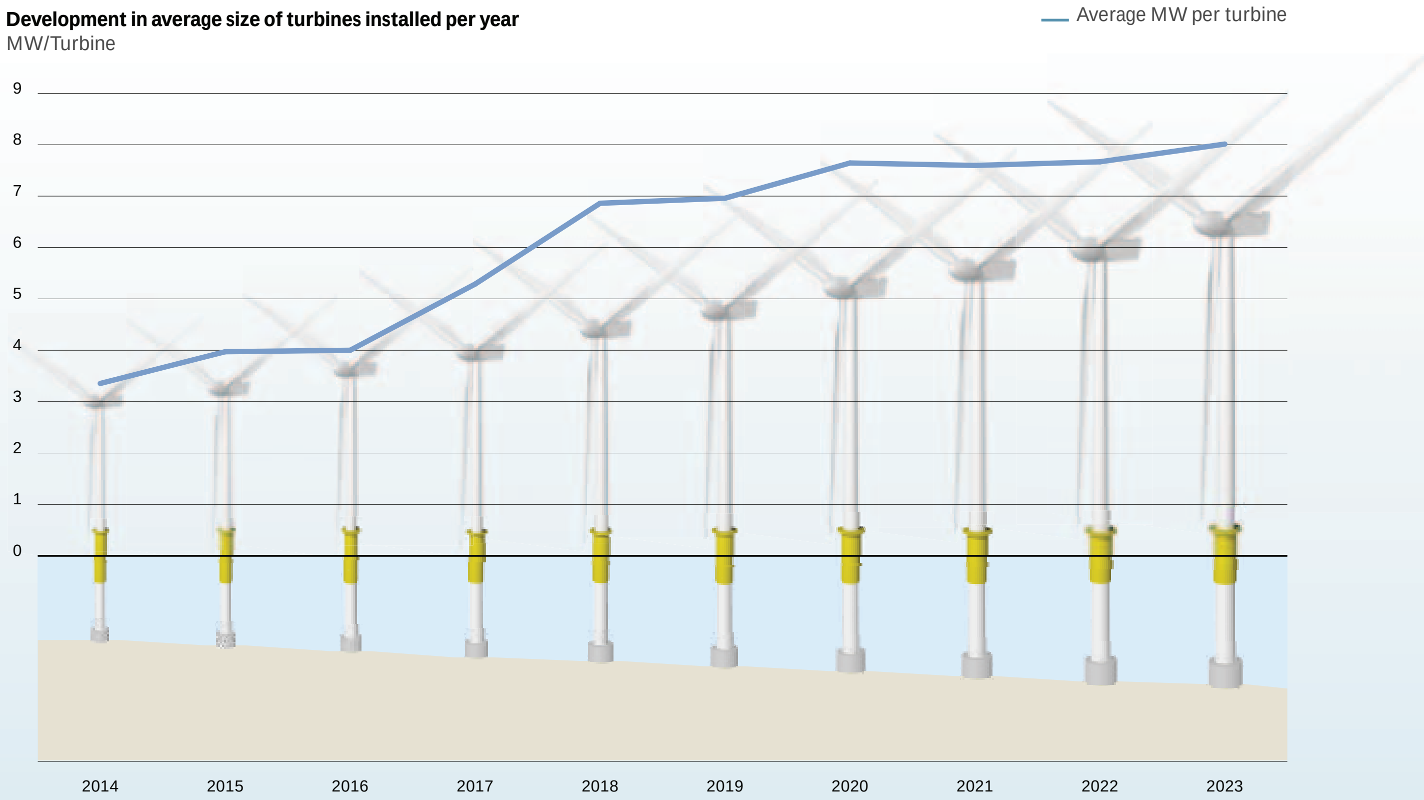
- All significant offshore wind farms are located in only six European countries
- UK and Germany are clearly the dominant markets, accounting for more than 70% of the installed number of turbines

Wind farm operator distribution
Turbines installed in Europe, end 2017



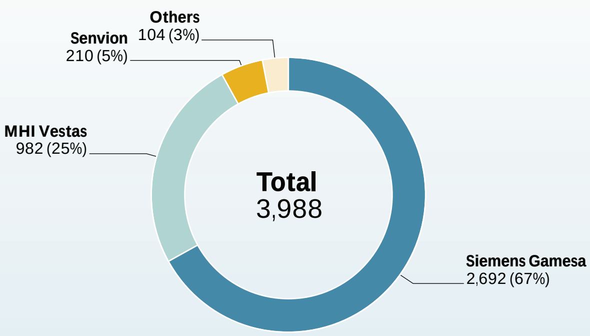
- Ørsted operates the largest installed base of turbines in Europe, ahead of Vattenfall

Development in average size of turbines installed per year
MW/Turbine



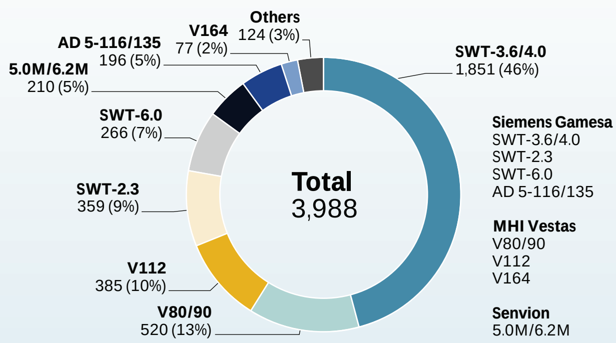
- Thanks to technology innovation, the industry is developing larger and larger turbines
- The current generation of turbines typically have a capacity of 7.0–9.5 MW. This is twice the power generation capability of the 3.6-4.0 MW turbines erected just two years ago
- Moreover, wind farms are being placed at ever greater water depths. This requires jack-up vessels with longer legs

Turbine OEM distribution
Turbines installed in Europe, end 2017



- Siemens Gamesa Renewable Energy has the largest installed base of turbines in Europe, ahead of MHI Vestas Offshore Wind

Turbine model distribution
Turbines installed in Europe, end 2017



- The Siemens Gamesa SWT-3.6/4.0 MW model is the model most frequently installed turbine in Europe
- The new generations of turbines from Siemens Gamesa and MHI Vestas Offshore Wind accounted for less than 10% of the installed base at year end 2017 but is expected to grow significantly in the coming years.


Beatrice
SWT-7.0 MW
SSE Renewables
84
100
Moray (East)
V164-8.0 MW
EDP
11
Aberdeen OWF
V164-8.0 MW
Vattenfall
5
Blyth demo
V164-8.0 MW
EDF
58
Robin Rigg
V90-3.0 MW
E.ON
27
Teesside
SWT-2.3 MW
EDF
Belfast
Walney Phase 2
SWT-3.6 MW
Ørsted
Walney Phase 1
SWT-3.6 MW
Ørsted
Ormonde
5M 126
Vattenfall
Walney Extension
V164-8.0 MW
Ørsted
47
40
51
30
51
Barrow
Barrow
V90-3.0 MW
Ørsted
Walney
Extension East
SWT-7.0 MW
Ørsted
41
Oriel Windfarm
V164-8.0 MW
Oriel Windfarm
108
30
West of
Duddon Sands
SWT-3.6 MW
Ørsted
Burbo Bank Extension
V164-8.0 MW
Ørsted
Gwynt y Mor
SWT-3.6 MW
Innogy
160
32
25
Burbo Bank
SWT-3.6 MW
Ørsted
Holyhead
25
30
Liverpool
Rhyl Flats
SWT-3.6 MW
Innogy
North Hoyle
V80-2.0 MW
Innogy
Arklow Bank
Phase 1
GE 3.6 -104
GE Energy
Wicklow
7
Westermost Rough
SWT-6.0 MW
Ørsted
35
Hull
73
Humber Gateway
V112-3.0 MW
E.ON
174
Hornsea Project One
SWT-7.0 MW
Ørsted
Race Bank
SWT-6.0 MW
Ørsted
91
Inner Dowsing
SWT-3.6 MW
Siemens Gamesa
27
75
67
Dudgeon
SWT-6.0 MW
Statoil ASA
27
88
Sheringham Shoal
SWT-3.6 MW
Statoil
Lynn
SWT-3.6 MW
Siemens Gamesa
Lincs
SWT-3.6 MW
Ørsted
East Anglia One
SWT-7.0 MW
Iberdrola
30
Scroby Sands
V80-2.0 MW
E.ON
Great Yarmouth
Galloper Wind Farm
SWT-6.0 MW
Innogy
Greater Gabbard
SWT-3.6 MW
SSE Renewables
Gunfleet Sands I + II
SWT-3.6 MW
Ørsted
140
56
Harwich
48
London Array
SWT-3.6 MW
Ørsted
175
30
15
34
100
Kentish Flats
V90-3.0 MW
Vattenfall
Kentish Flats
Extension
V112-3.3 MW
Vattenfall
Ramsgate
Thanet Extension
V164-8.0 MW
Vattenfall
116
Rampion
V112-3.45 MW
E.ON
Thanet
V90-3.0 MW
Vattenfall
Falmouth
Albatros
SWT-7.0 MW
EnBW
Deutsche Bucht
V164-8.0 MW
Northland Power
Veja Mate
SWT-6.0 MW
Highland Group
Trianel Windpark
Borkum - phase 2
6.2M 126
Trianel
Gemini
SWT-4.0 MW
Northland Power
Trianel Windpark
Borkum - phase 1
M5000-116
Trianel
Egmond aan Zee
V90-3.0 MW
Vattenfall
36
Prinses Amalia
V80-2.0 MW
Eneco
60
43
Ijmuiden
102
Eneco Luchterduinen
V112-3.0 MW
Eneco
Borssele IV
V164-8.0 MW
Blauwwind
Borssele III
V164-8.0 MW
Blauwwind
Belwind
V90-3.0 MW
Parkwind BV
46
47
47
Nobelwind
V112-3.3 MW
Parkwind BV
Borssele II
SWT-8.0 MW
Ørsted
Northwester 2
V164-8.0 MW
Parkwind BV
35
55
50
47
Borssele I
SWT-8.0 MW
Ørsted
72
33
31
42
6
30
18
44
Vlissingen
Rentel
SWT-7.0 MW
Otary
Oostende
Norther
V164-8.0 MW
Eneco
Northwind
V112-3.0 MW
Parkwind BV
Thornton Bank
Phase III
6.2M 126
C-Power nv
Seastar
SWT-8.0 MW
Otary
Thornton Bank
Phase I
5M 126
C-Power nv
Thornton Bank
Phase II
6.2M 126
C-Power nv
Mermaid
SWT-8.0 MW
Otary
GRID CONNECTED END 2017
GRID CONNECTED 2018
GRID CONNECTED 2019
GRID CONNECTED 2020
GRID CONNECTED 2021
111
Anholt
SWT-3.6 MW
Ørsted
Site name
Turbine
Operator
No. of turbines at the wind farm
NEARBY PORTS

OFFSHORE WIND FARMS IN EUROPE

GROWTH OF OFFSHORE WIND O&M

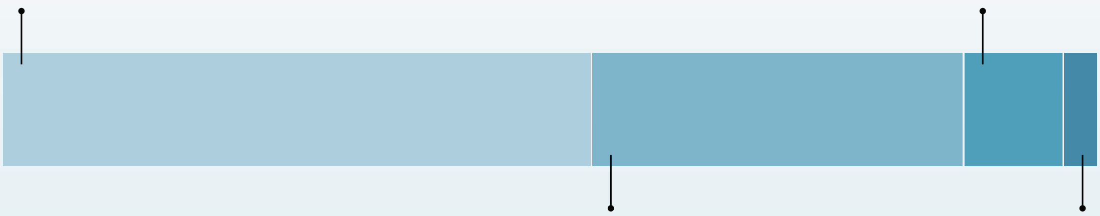
The market for major component replacement, such as gearboxes, blades and generators, is driven by the number of turbines installed and turbine failure rates.

The first of these drivers, the number of turbines installed, suggests a very encouraging outlook as explained in the “Market trends” section.

The second major driver of demand for O&M jack-up vessels is turbine failure rates. Depending on the particular model, a turbine may suffer from defects due to its design or to substandard components. Such defects will often manifest themselves within the first few years of installation. Longer-term failure rates mainly depend on wear and tear. Offshore wind farms are like remote power plants, but unlike conventional power stations, they are also exposed to highly variable and harsh weather conditions, including calm to severe winds, lightning and hail. Due to these external variations, offshore wind turbines undergo constantly changing loads, which result in highly variable operating conditions that cause intense mechanical stress.

ZITON has been performing major component replacements since acquiring J/U WIND in 2007. The company has carried out more than 600 service interventions at 46 wind farms and is the market-leading service provider within offshore wind operations & maintenance. In other words, we have the industry’s best documented insights into offshore wind turbine failure rates. We consistently collect and analyse major component replacement data, adding to our experience base year by year. Our proprietary insights allow us to prepare scenarios for a predicted trend in failure rates over the coming years, enabling us to align our vessel capacity with the projected demand for the benefit of our customers.

AGE OF TURBINES INSTALLED



As can be seen from the illustration, more than half of the turbines currently in operation are less than five years old. Only 489 of the installed turbine base, equivalent to 12%, are over ten years old. As a result, no long-term studies exist on failure rates of major components and the industry is still compiling insights into failure rates over the complete life cycle of offshore wind farms which is estimated at 20 years.

46
wind farms

FROM THE BALTIC TO THE IRISH SEA. DEEP TO SHALLOW – ANY SEABED

28
years in business

PROVIDING OFFSHORE SERVICES ABOVE AND BELOW SEA LEVEL

617
Turbines serviced

GEAR BOXES, BLADES GENERATORS, TRANSFORMERS SHAFTS, BEARINGS

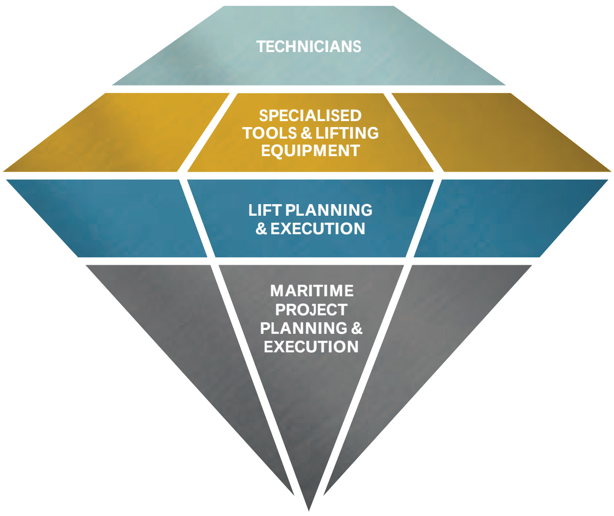
ZITON'S SERVICE OFFERING

ZITON's core business is to own and operate jack-up vessels designed to carry out O&M services on turbines at offshore wind farms. The business is gradually developing to encompass a full-service solution.

FULL-SERVICE SOLUTION

ZITON's core business has always been to own and operate jack-up vessels. While our core business will not change, customers are increasingly demanding full-service solutions. This has its obvious advantages from the customers' point of view. They have built their skills and expertise on day-to-day O&M routines, but those routines do not include major component replacement. Even for a large wind farm with 100 turbines, the wind farm operator may only need to perform a major component replacement once every three months. That makes it difficult to build the experience necessary to carry out major component replacements smoothly and efficiently. ZITON has performed more than six hundred major component replacements and has developed processes and procedures enabling safe and efficient operations. We have invested significant resources in the ZITON Portal, which enables us to deliver project documentation cost effectively and to collaborate with our customers on such operations.

In February 2017, we established ZITON Contractors A/S to provide technicians for major component replacement, pre-assembly etc. We are now able to offer customers full-service solutions with maritime project planning & execution, lift planning & execution, specialised tools & lifting equipment and technicians in addition to jack-ups with experienced crews. Our expanded scope of a full-service solution is illustrated below.



CORE BUSINESS
A JACK-UP WITH A CRANE

TYPICAL O&M SETUP

OEMs or wind farm operators monitor offshore turbines remotely, as wind farms are often located in harsh and difficult-to-access areas. Remote monitoring is an important part of O&M, and includes supervision of the turbines and diagnostics should a malfunction occur. In many cases, turbine restarts can also be performed remotely.

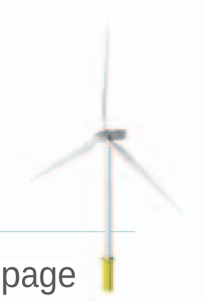
Day-to-day O&M routines include inspections, minor repairs, greasing or electrical work, for example, performed on a weekly or monthly basis. An offshore wind farm with about 100 turbines usually operates two or three small crew transfer vessels (CTV) on a full-time basis as part of its O&M setup. For wind farms further offshore, the use of larger service operation vessels (SOV) helps reduce travel times, because SOVs also function as a spare-part warehouse, hotel and workshop.

Jack-up vessels such as those operated by ZITON are required for major component replacement jobs involving exchange of gearboxes, blades, generators and other components.

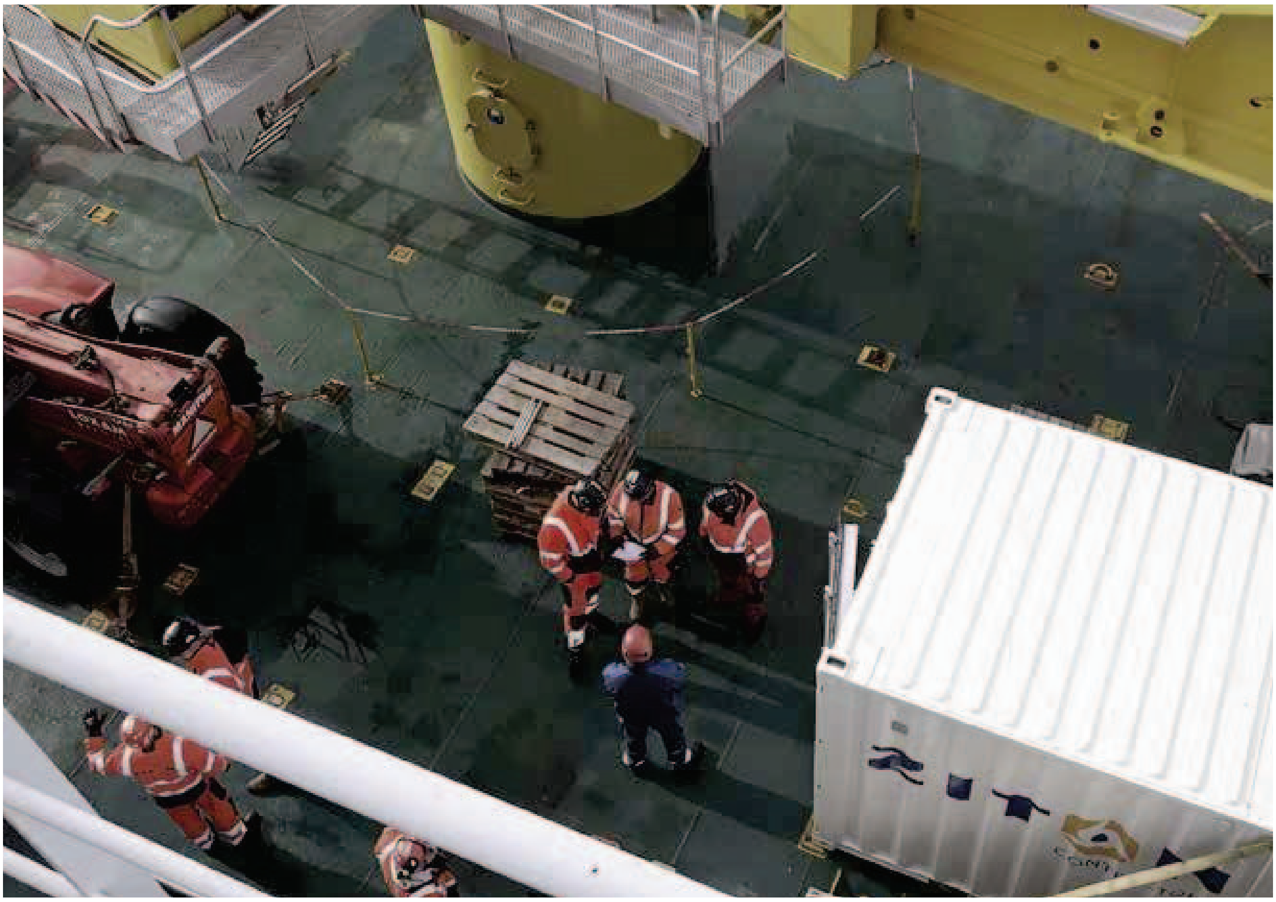
MAJOR COMPONENT REPLACEMENT

ZITON's scope of business in relation to major component replacement covers the entire spectrum of the operation, from planning and documentation to execution. Normally, ZITON receives site information from the wind farm owner with the latest site survey including information on seabed cabling tracks, turbine positions, scour protection areas, seabed drill samples, unexploded ordnances and Bartholomew maps (seabed maps). Based on this information, a consultant prepares a leg penetration analysis ("LPA") report. The penetration analysis is based on the exact jack-up vessel for each location or for a group of locations depending on the seabed structure. Based on this LPA, a site-specific assessment ("SSA") is carried out by another consultant. The SSA provides calculations that in turn determine the weather conditions under which the vessel can and must operate. The SSA is normally then subject to approval by the client's marine warranty surveyor.

For lifts of gearboxes, blades, generators and other components, a lifting plan is a safety requirement. The lifting plan



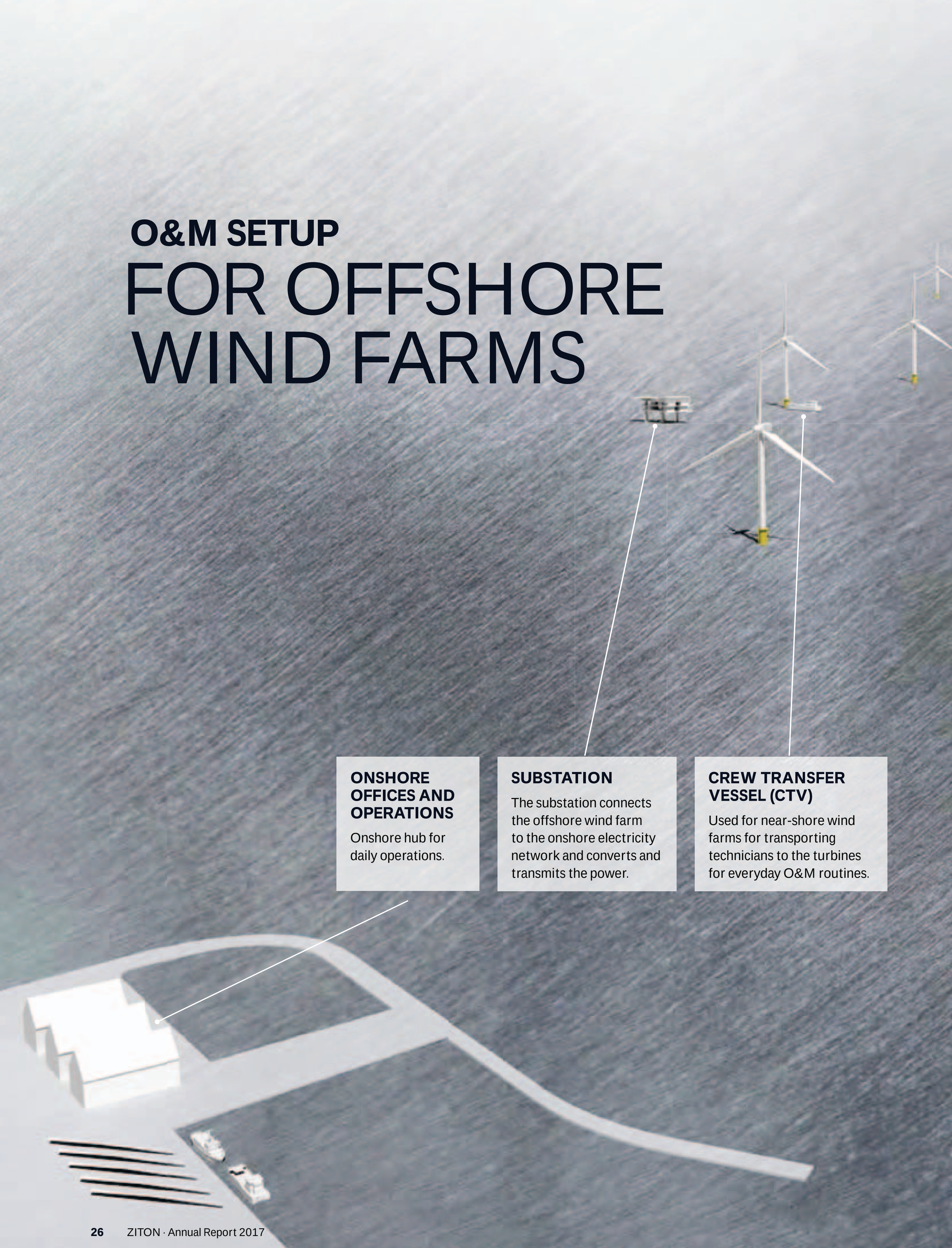
A typical O&M setup is illustrated on the next page



includes engineering calculations of strength of the lifting equipment, specifies the lifting equipment to be used, such as georgia, yoke, chain slings etc., and provides drawings of the lift from various angles. For some customer segments, ZITON prepares a lifting plan. The lifting plan is prepared by an appointed person with thorough qualifications, in-depth knowledge and prior experience from preparing lifting plans. A lifting supervisor is present at the vessel to ensure that the lifts are carried out according to the lifting plan. For some customers, ZITON also provides the lifting supervisor.

Normally, the required spare parts are loaded onto the jack-up vessel in a base port near the site. After securing the components, sea and weather permitting, the vessel sails out to the location of the turbine. Offshore wind farms are deliberately placed in areas with harsh weather to maximise the energy output, and hence a window of benign weather conditions that fall within the vessel's operational capability is required. The length of this window depends on the type of repair work to be carried out, but it ranges from six to thirty-six hours. Wind speeds above the operational threshold is the most common factor causing delays or limitations to the work carried out, resulting in a "waiting-for-weather" situation. Before the jack-up service vessel commences its procedure, the turbine will be switched off and prepared by the wind farm's technical staff. Once the technical staff assess that the turbine is ready, the jack-up vessel moves into position, assisted by dynamic positioning systems which calculate and maintain an optimal vessel position throughout the procedure. Once the vessel is in position, jacking up commences. Having reached stable seabed pressure and after a sufficiently long pre-drive period, the crane is released for operation and a safe transfer from the vessel to the turbine foundation is established via a gangway. Subsequently, old parts are lifted from the turbine onto the deck of the vessel and replaced with new parts which are then lifted onto the turbine and installed. Upon completion of the procedure, the vessel jacks down and sails on, either to the next location or back to its base port.

O&M SETUP FOR OFFSHORE WIND FARMS



MET MAST

The met mast is erected prior to installation of the wind farm to provide actual measurement of the weather conditions at the site.

SERVICE OPERATION VESSEL (SOV)

Used for far-offshore wind farms for transporting technicians to the turbines for everyday O&M routines.

DEDICATED O&M JACK-UP FOR MAJOR COMPONENT REPLACEMENT

Occasionally, it is necessary to exchange a major component, such as a gearbox, blades, generators, etc. This requires a dedicated O&M jack-up positioned next to the turbine.

CUSTOMER CONTRACTS

Customers in the offshore wind O&M industry include both OEM turbine manufacturers and wind farm operators.

Once an offshore wind farm has been installed, turbine O&M is normally provided by turbine manufacturers under a warranty agreement. In many cases, warranty agreements are of a five-year duration. For wind farms operated by a utility, it is customary for the owner to assume full O&M responsibility when the warranty period ends. The purpose is to reduce O&M costs during the remainder of a wind farm's lifetime. Some wind farms are fully owned by financial investors that are inclined to outsource O&M responsibility to third parties or OEMs. Since none of the major offshore wind farm operators or OEMs own or operate O&M jack-up vessels in-house, both groups are customers or potential customers of ZITON. Wind farms operated by utilities are often partly owned by financial investors.

ZITON applies different types of contracts with its customers: Time charter (T/C), framework agreements or turnkey contracts.

A T/C is characterised by being a hire of a vessel for a certain predetermined period at a fixed day rate. T/C can be short-term (up to three months), medium-term (from 3 to 24 months) or long-term (beyond two years). Customers often have extension options at the end of a contract period. Under T/C contracts, the customer is generally required to pay for fuel, port calls and for necessary logistical support from supply boats in addition to the day rate. The cost of delays resulting from adverse weather lies with the customer.

ZITON also enters into framework agreements with its customers. Framework agreements ensure that contract terms including pricing are agreed upon beforehand, thus reducing the time to carry out major component replacements. Framework agreements are based on either lump sum prices or day rates. If day rates apply, they are based on a short-term rate and are often somewhat higher than long-term T/C rates. For the replacement of major components such as gearboxes, blades, generators and transformers, ZITON also offers customers lump sum prices per component replacement. When quoting lump sum prices, ZITON bears all costs including fuel, port calls, etc., as well as costs incurred due to delays resulting from adverse weather. Due to the harsh weather conditions that often occur during the winter period, weeks can go by without the weather permitting any major component replacement. During the summer, on the other hand, several components can be replaced in a week if the turbines are located in close proximity to one another.

ZITON enters into turnkey contracts in market segments where it has a competitive edge. In general, this is in segments where maritime knowledge, availability of a jack-up vessel with a crane combined with strong knowledge of the offshore wind industry is essential. These market segments include decommissioning of met masts, foundations and turbines. As for lump sum agreements, costs related to fuel, port calls and delays due

ZITON'S MAIN CONTRACTS

	OEMs		Operators	
CUSTOMER	**SIEMENS GAMESA RENEWABLE ENERGY**	**MHI VESTAS OFFSHORE WIND**	**ØRSTED**	**VATTENFALL**
CONTRACT TYPE	Time charter	Framework agreement	Framework agreement	Framework agreement
CONTRACT DURATION	Mar 2016 - Mar 2019	Dec 2014 - until further notice	Aug 2016 - Mar 2019	Nov 2016 - Nov 2019

to adverse weather, etc. are borne by ZITON, as are the risks related to subpar performance of any subcontractors hired to perform, for instance, subsea operations. The responsibility of a turnkey project requires strong project management skills in order to avoid cost overruns. Contracts are generally entered into following a tender process initiated by the customer issuing a request for a quotation. The request is sent to a number of vessel operators either directly, through shipbrokers or through supplier management communities. Tender processes normally require a price indication, evaluation of contractual conditions, description of HSEQ systems, proposed project execution plans, availability of proposed vessels and vessel specifications including water depth, load, crane load, accommodation facilities, etc. Participating in tender processes requires substantial documentation, in particular in relation to more complex turnkey solutions. ZITON's management team has significant experience in managing tender processes and preparing tender documentation.

ZITON has entered into contracts with four of the leading companies within offshore wind.

THREE-YEAR CHARTER WITH SIEMENS GAMESA RENEWABLE ENERGY

ZITON commenced a three-year T/C for J/U WIND SERVER with Siemens Gamesa Renewable Energy (SGRE) on 14 March 2016. SGRE is the OEM with the largest installed base of turbines in Europe. The vessel is part of an initiative to service offshore wind power projects installed by SGRE across northern Europe. This highly innovative, purpose-built jack-up vessel allows SGRE to keep the vessel ready for fast mobilisation, reducing the required lead time for servicing turbines. During the tenor of the three-year contract, ZITON will be remunerated on the basis of a fixed day rate.

FRAMEWORK AGREEMENT WITH ØRSTED

ZITON has a framework agreement with Ørsted covering the period from August 2016 until March 2019. Ørsted is Europe's largest operator of offshore wind farms. The agreement is not vessel specific. Remuneration to ZITON takes place on a lump sum basis, with the price varying with the type and site of the intervention.

FRAMEWORK AGREEMENT WITH VATTENFALL

ZITON has a three-year framework agreement with Vattenfall covering the period from November 2016 to November 2019. Vattenfall is Europe's second-largest operator of offshore wind farms. The agreement is not vessel specific. Remuneration to ZITON takes place on a lump sum basis, with the price varying with the type and site of the intervention, and ZITON's response time to Vattenfall's request.

FRAMEWORK AGREEMENT WITH MHI VESTAS OFFSHORE WIND

ZITON retains a framework agreement with MHI Vestas Offshore Wind (MHI Vestas) entered into in 2014. The agreement was set to expire at the end of 2017, but has been prolonged until cancelled by one of the parties. MHI Vestas is the OEM with the second-largest installed base of turbines in Europe. The agreement grants ZITON the right of first refusal on all service interventions on the majority of MHI Vestas' offshore turbines. The agreement is not vessel specific. Remuneration to ZITON takes place on a lump sum basis, with the price varying with the type and site of the intervention.

CORPORATE RESPONSIBILITY

ZITON maintains various policies and certifications in relation to corporate responsibility.

ZITON maintains policies within the areas of Human Rights and Labour, Environment, Anti-Corruption, and Safety and Quality management. The Safety and Quality management policies are fundamental to working at sea and are elaborated upon separately on the next page.

HUMAN RIGHTS AND LABOUR

Within the area of Human Rights and Labour, ZITON maintains a policy of not employing young people under the age of 18 on board the company's vessels. The aim is to avoid young people performing hazardous work when working for ZITON. We have been certified to the Maritime Labour Convention by the Danish Maritime Authority. We enforce this policy for all work carried out on board our vessels by our own employees and by those of our suppliers or sub-contractors. The policy was successfully applied in 2017, as no direct employees or employees of suppliers or sub-contractors under the age of 18 worked on our vessels during the year.

ENVIRONMENT

Environment includes climate effects. In this area, ZITON maintains a policy for garbage management that aims to minimise the production of waste on board our vessels and at our office premises. Our garbage management policy is part of Annex V of the MARPOL 73/78 convention and IMO Resolution MEPC20(62). The policy stresses, among other things, that the volume of packaging brought on board our vessels must be kept at an absolute minimum, and where packaging is imperative, we prefer two-way-packaging or recyclable material. All crew members must be fully familiar with the content of the ZITON garbage management policy. Crew members are required to sign a statement confirming that they have familiarised themselves with and fully understand the garbage management policy. The policy was successfully applied in 2017, as there were no incidents of garbage being disposed of overboard from any of our vessels at sea.

ANTI-CORRUPTION

ZITON maintains an anti-bribery and anti-corruption policy. The aim is to conduct our business in a lawful and ethical manner with integrity towards our stakeholders. We enforce this policy mainly by our management promoting our values across our organisation. In addition, we require receipts for all costs consumed and all costs must be approved by a superior to the person consuming the costs. To the best of our knowledge, the policy was successfully applied in 2017, as we have not identified any indicators of corruption.

SAFETY AND QUALITY MANAGEMENT

Working at sea can be hazardous. Safety and health is there for a cornerstone in how we work and how we approach each assignment

At ZITON, we have a relentless focus on health, safety, environment and quality (HSEQ) for our employees, subcontractors and customers.

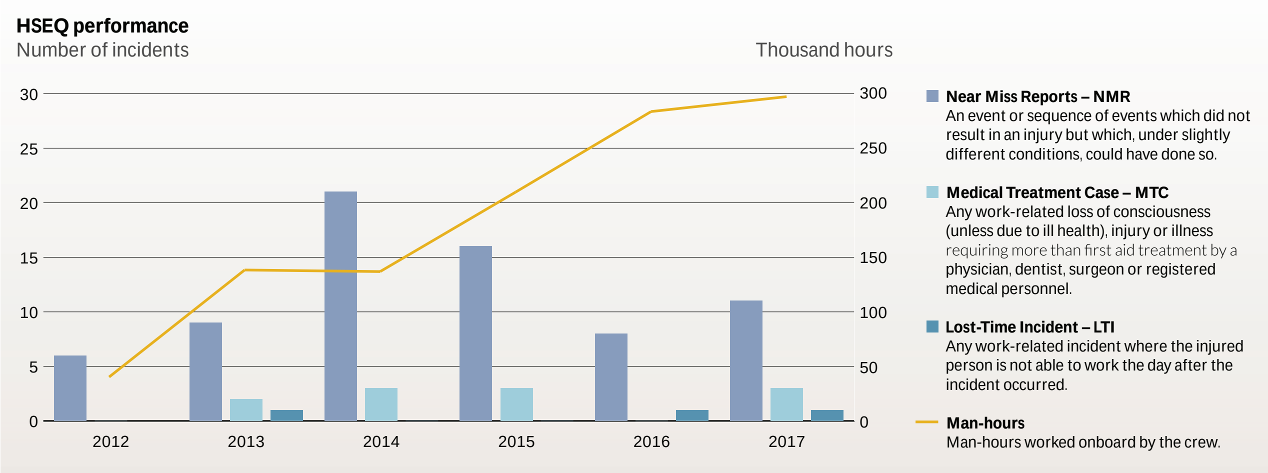
Our Safety First culture permeates our entire organisation and is the all-encompassing rule onboard our vessels. Emergency drills are held on monthly basis on all our vessels and we conduct more than 62 drills on each vessel every year. In addition, we have a ship-to-shore drill at least once a year to train the procedures between the onshore Emergency Group and the Masters of the Vessels. This means we are trained in almost any unexpected situation that may arise.

Our vessels are at all times manned by highly qualified staff who follow the ZITON code of conduct in which zero drug and alcohol tolerance is undebatable and never open to question. Unannounced examinations are standard procedure and are conducted by an independent, external agency with expertise in drugs and alcohol-testing programs.

Our HSEQ system has been certified by Bureau Veritas to satisfy the requirements of the ISM Code /MLC 2006 and to the ISO9001:2015 / ISO14001:2015 & OHSAS 18001:2008 standards. The ISO and OHSAS standards are all voluntary, but the company uses them to strengthen its safety and quality standards. Group management diligently monitors that the established procedures for operations, projects and work on all vessels are followed to the letter and carefully reviews the monthly HSEQ report. We apply a vessel risk assessment management system which includes a toolbox talk before each assignment and a safety card system, enabling us to react proactively to potentially unsafe conditions. In addition, we use the BIMCO Shipping KPI system to benchmark our HSEQ performance for the purpose of implementing best practice recommendations.

EXAMPLE OF SAFETY FIRST IN ACTION

In 2017, we had an emergency situation. A 1st Engineer became sick offshore and needed to be transferred to the hospital onshore by helicopter. The vessel's emergency preparedness programme was activated and the vessel Master contacted the Company's Emergency Group for backup from the head office. The call to the Emergency Group was made at 02.00 AM and the COO responded to the call immediately. The time to respond was three hours from when the 1st Engineer reported his abnormal pain until he was evacuated by helicopter from the vessel. Due to the high safety awareness, this case went right according to plan. The conclusion after this operation was that it was done in a calm and professional manner.




ZITON

12

YEARS AT SEA

Pawel Wojcicki, Able Bodied Seaman

J/U WIND PIONEER

“Through hardship to the stars.”

Can do. Will do.

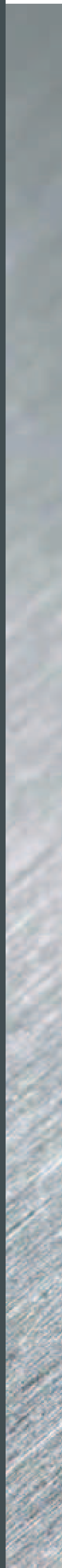
VISION AND MISSION

OUR VISION

Offshore renewables are the preferred future source of energy.

OUR MISSION

To provide second-to-none solutions to the offshore renewables industry through our dedication to skilled people, specialist equipment and safe operations.



STRATEGIC DIRECTION

The strategic direction for ZITON contains four key elements

VALUE-ADDED SERVICES

ZITON is gradually expanding its service offering relating to our core business of major component replacement. Increasingly, customers are requiring full service solutions with maritime project planning & execution, lift planning & execution, specialised tools & lifting equipment and technicians in addition to a jack-up with an experienced crew. This has its obvious advantages from the customer's point of view as major component replacement is not part of their everyday routines. From ZITONs perspective, the benefit is equally attractive as it further differentiates ZITON's service offering from that of the competition.

SERVICE LARGER TURBINES

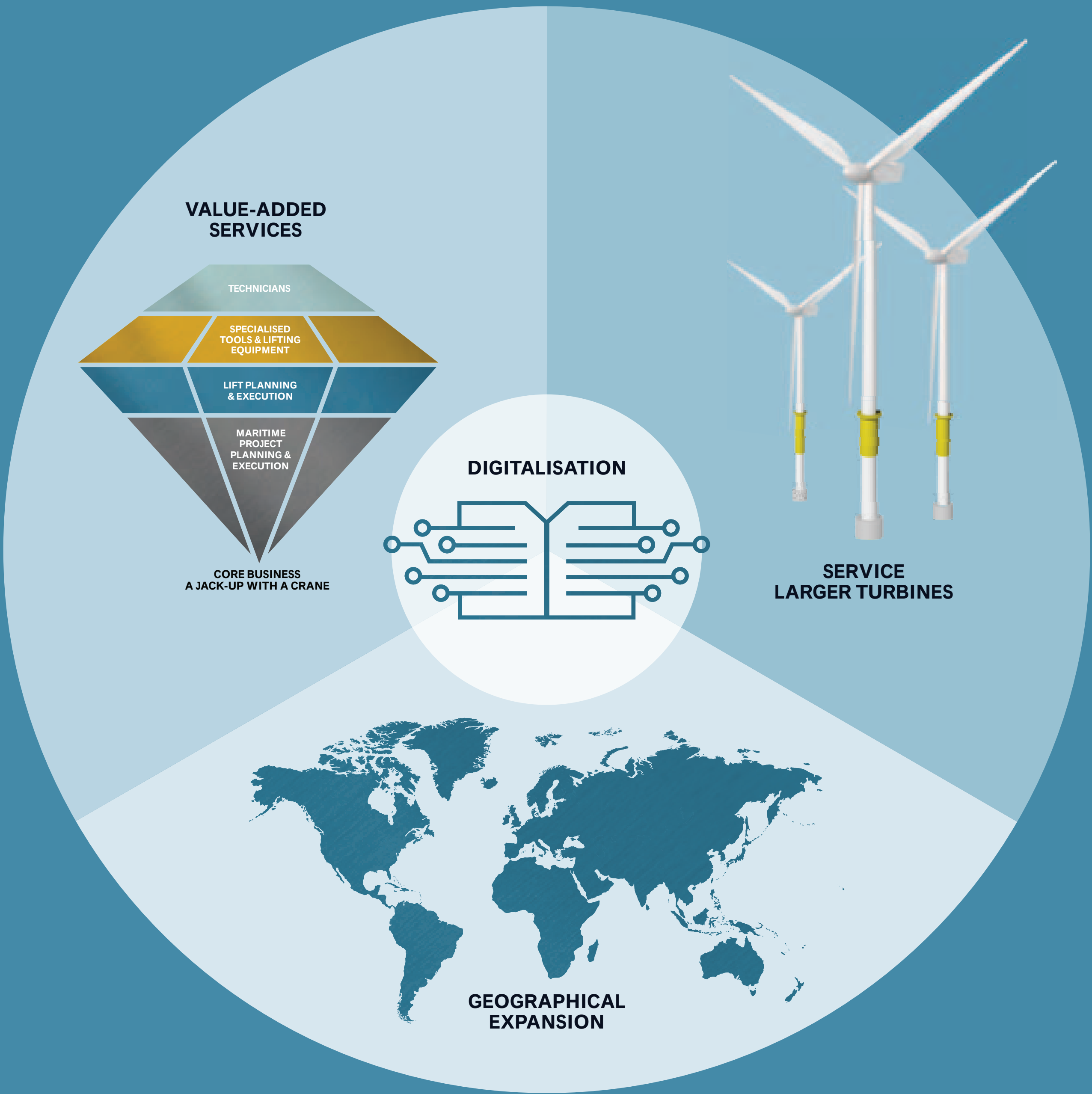
Resulting from turbine technology innovation turbines are becoming larger and larger. The current generation of turbines typically have a capacity of 7.0–9.5 MW, which is twice the power generation capability of the 3.6-4.0 MW turbines erected just two years ago. ZITON's current fleet is designed for the former generation. These turbines will still need service during their lifetime of around 20 years. However, adding a larger vessel to the fleet is part of a strategic priority to grow with the market growth and service our customers in the future.

GEOGRAPHICAL EXPANSION

ZITON and many of our people have been part of the offshore wind industry since its infancy. Offshore wind has evolved in northern Europe since the year 2000, but has only in the last couple of years begun to gain traction across the globe. ZITON has gained significant offshore wind experience through the years and is now exploring opportunities to apply this experience in other parts of the world. In particular, it would seem that political support for offshore wind is creating business opportunities in Asia and the USA.

DIGITALISATION

ZITON continuously invests in the digitalisation of the business to improve operations and customer interaction. Achieving operational efficiency in major component replacement in the offshore wind industry is strongly subject to weather conditions and also depends on the many touchpoints and the coordination needed between ZITON, customers and suppliers. ZITON seeks to digitise and integrate internal processes and touchpoints in the supply chain.


VALUE-ADDED
SERVICES
TECHNICIANS
SPECIALISED
TOOLS & LIFTING
EQUIPMENT
LIFT PLANNING
& EXECUTION
MARITIME
PROJECT
PLANNING &
EXECUTION
CORE BUSINESS
A JACK-UP WITH A CRANE
DIGITALISATION
SERVICE
LARGER TURBINES
GEOGRAPHICAL
EXPANSION

BUSINESS MODEL

KEY RESOURCES

Building or acquiring jack-up vessels requires high initial investments and design requirement know-how.

VALUE TO CUSTOMERS

For wind farm owners, it is important to avoid any unscheduled downtime reducing a wind turbine's power output. Customers use remote condition monitoring to avoid turbine breakdowns and optimise the timing of major component replacements. Our vessels are dedicated to operations & maintenance and are always ready to provide swift assistance to "keep the blades turning" at offshore wind farms.

CUSTOMER SEGMENTS

There are two customer segments in the offshore wind industry; turbine manufacturers and wind farm operators.

Turbine manufacturers include Siemens Gamesa Renewable Energy, MHI Vestas Offshore Wind, Senvion, GE Renewable Energy, among others.

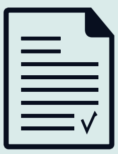
Wind farm operators are primarily utilities like Ørsted, E.On, Vattenfall, Innogy, SSE, EnBW, among others.

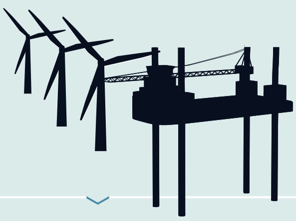
Once an offshore wind farm has been installed, turbine manufacturers normally provide operations & maintenance services under their warranty programmes, which typically extend for five years. It is customary for wind farm operators to assume full O&M responsibility when the warranty period ends.

COST STRUCTURE

Operating a maritime organisation that serves offshore wind farms implies a predominantly fixed-cost structure with relatively limited variable costs. For example, staff, insurance, catering and other costs are fixed regardless of the level of activity.

A business model for jack-up operations involves a high initial investment and high operating costs with only a minor variable cost component. Accordingly, most costs are fixed, and ZITON's key drivers of cash flow generation are day rates and the fleet utilisation rate.





REVENUE STREAMS

Due to the high initial investments and the fixed-cost base, achieving a satisfactory return on invested capital requires high vessel utilisation rates at adequate day rates. The Company endeavours to secure longer-term contracts with customers. Preferably, this is in the form of time charter contracts or right-of-first refusal framework agreements that provide a predictable revenue stream.

THE DIFFERENCES BETWEEN DEDICATED O&M SUPPLIER AND INSTALLATION JACK-UPS

There are some 25 jack-up vessels regularly operating in the offshore wind industry. Most of them, by far, are used for installing new wind farms. ZITON is the only dedicated provider of jack-ups for major component replacement. There are certain important differences between a dedicated O&M supplier and a provider of installation jack-ups, such as:

Technical capability of the vessel
Our fleet of dedicated O&M jack-ups provides us with the flexibility and versatility to operate at many different locations. However, our vessels do not require large deck space and crane lifting capacity, such as installation jack-ups generally do. Moreover, being lighter and smaller, O&M jack-ups consume less bunker fuel than their installation counterparts and smaller crews are required to operate them. This means significantly higher OPEX and CAPEX for installation jack-ups than for dedicated O&M jack-ups and, accordingly, a need to charge higher charter rates. Thus, owners of installation jack-ups are less inclined to use their jack-ups for O&M purposes.

Experience of the crew
Crews with 10 years of experience are rarely seen in this young industry, but that is what we can provide at ZITON. Our crew has experience from working with a variety of wind turbine models, sites, ports and under various operating conditions. Everyone in our crew knows exactly the sequence and details of operations including the imperative of 'safety first' in all operations. Our crew's experience enables us execute major component replacement with unrivalled efficiency.

Organisation
ZITON has a lean organisation, geared towards completing efficient major component replacement operations in a matter of days, and often at short lead-times requested by customers. The costs of O&M operations would simply be too high for large organisations geared towards the complexity of projects with a duration of six months and beyond. We have invested significant resources in the ZITON Portal, which enables us to cost-effectively deliver project documentation and to collaborate with our customers on operations.

RISK MANAGEMENT

At ZITON, we define risk as "anything that can adversely affect our ability to execute our strategy and prevent us from achieving our objectives".

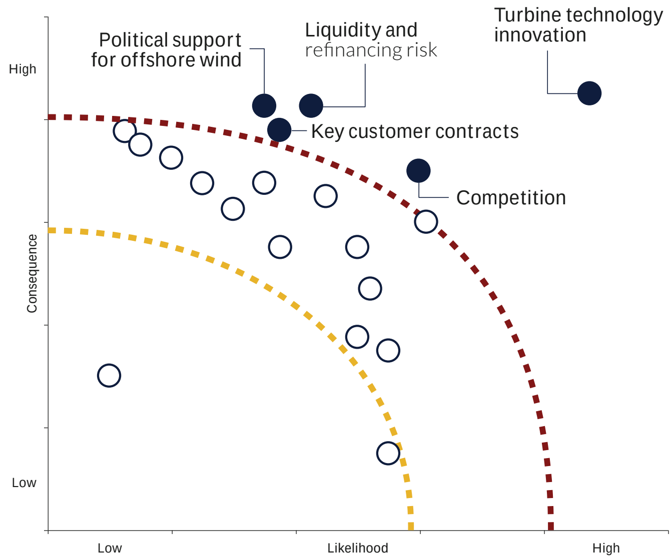
RISK MANAGEMENT PROCESS

The risk assessment process is anchored in the Executive Management team, which regularly reviews the process of risk identification, analysis, evaluation and considers treatment, as illustrated below. At regular board meetings, the Board of Directors and the Executive Management assess and discuss main changes in key risks.

Depending on their origin, risk factors are categorised as strategic, operational, financial or compliance risk. Financial risks, including risks related to credit, liquidity, interest rates and markets, are addressed in note 4.1 to the consolidated financial statements. Risk factors are not only perceived as risks, but also as opportunities to continue developing the strategy. Strategic responses to risk factors may consequently lead to an improved market position.

RISK HEAT MAP

To help visualise risks and opportunities, a heat map is prepared with the net risk presented after possible mitigation. The risks beyond the dotted red line are assessed to be the most significant risks to which the Company is exposed.



MAIN CHANGES OF RISK EVALUATION

The Board of Directors and the Executive Management have reviewed the risk assessment and compared it to last year's annual report, and they found no major changes to the most significant risks. However, two risk elements have been thoroughly discussed: Brexit and cyber risks. These risks are not considered to be significant, but they have nonetheless increased in importance.

The potential impact of Brexit was reviewed. More than half of ZITON's revenue is derived from the UK, as can be seen from note 2.1 to the consolidated financial statements. Accordingly, the UK market is of substantial importance, but management believes that Brexit is highly unlikely to result in trade barriers that will prevent ZITON from operating in the UK.

Cyber risks were more prevalent in 2017 than in previous years. ZITON is regularly exposed to different types of phishing. As a result, we have built organisational awareness of cyber risks and improved our technical ability to detect, protect against and respond to cyber risks.

THE FIVE MOST NOTICEABLE RISK FACTORS SHOWN IN THE RISK HEAT MAP ARE ELABORATED UPON BELOW

RISK FACTORS	POSSIBLE CAUSES	POTENTIAL CONSEQUENCES	ENSUING MITIGATION
TURBINE TECHNOLOGY INNOVATION	• Technology innovation enabling the industry to build larger turbines with heights that exceed the lifting heights of the Company's current fleet • Turbine technology innovation making it possible to carry out major component replacement offshore without the need for a jack-up • Development of more reliable turbine technology with fewer defects	• Uncertainty about future market demand for the Company's current fleet	• Continue investing in vessels capable of meeting technology trends of increasingly larger turbines. The bond issue contains a limitation of EUR 2.0m on newbuild CAPEX during the tenor of the bond.
COMPETITION	• ZITON is currently the only company to offer dedicated O&M services for major component replacements at offshore wind farms. • Companies with jack-ups used for new wind farm installations may offer O&M services if there is inadequate demand for installation of new wind farms, or if turbines become too large for them to install • New entrants may invest in jack-ups to offer major component replacements	• Excess capacity of jack-up vessels could lead to low utilisation rates and price competition	• Seek to increase differentiation from competition and create value to customers that peers are unable to match • Build barriers to entry that will make ZITON's dedicated O&M services more difficult to compete with
POLITICAL SUPPORT FOR OFFSHORE WIND	• Development of new wind farms relies on continued political support for decarbonising the economy. This involves maintaining regulatory regimes that make investing in offshore wind farms attractive	• A drop in the number of new wind farms will reduce the projected demand for O&M services, although O&M services will still be needed for existing turbines. This may also lead to excess capacity of jack-up vessels and price competition	• ZITON accepts this event as a risk inherent to being in the offshore wind industry • A continued reduction of the Levelised Cost of Energy (LCOE) would reduce the need for subsidies. More efficient O&M services is an important factor in reducing LCOE
KEY CUSTOMER CONTRACTS	• ZITON relies on being able to fulfil contracts with its key customers to secure future revenue. Inability to meet requirements of contracts with key customers will have material consequences for the company's cash flows. In the medium-term, the company relies on the prolongation of existing contracts or on winning new contracts	• Contracts with Siemens Gamesa Renewable Energy, Ørsted, Vattenfall and MHI Vestas collectively account for the majority of projected revenue in 2018	• To reduce the risk of going off-hire, redundancy is built into the design of J/U WIND SERVER. We also ensure a very high level of preventive maintenance in all aspects of the vessel and keep an inventory of critical spare parts
LIQUIDITY AND REFINANCING RISK	• Liquidity and refinancing risk includes the risk of the group experiencing a liquidity shortage and the inability to refinance its maturing bond loan and credit lines as needed	• If refinancing of the company is not possible when the bond loan matures or if the company encounters liquidity risk, the cost may be critical and could possibly impact the ability to run the Company	• The company currently has a loan to book value of vessels ratio of 58% and plans to reduce that percentage before the current bond issue comes due for refinancing (matures 26 November 2019)

HOW WE MEASURE PERFORMANCE

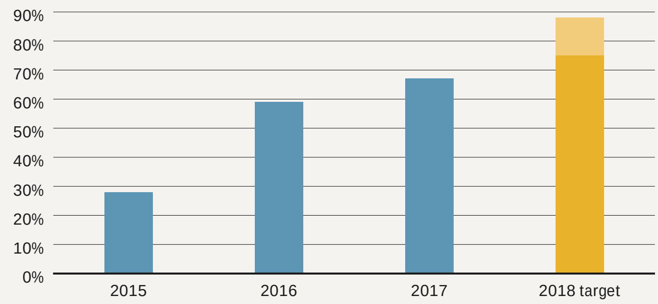
The Board of Directors and Executive Management monitor a number of key performance indicators ("KPIs") to evaluate the performance of our strategy over time.

KPIs	DEFINITION	WHY WE USE THE MEASURE	COMMENTS ON 2017 PERFORMANCE
WEIGHTED AVERAGE UTILISATION RATE	Weighted average utilisation rate is defined as revenue during the period divided by full utilisation at standard rates. Each vessel has a different weighting depending on its specifications. J/U WIND PIONEER and J/U WIND SERVER were included in 2015	A high utilisation rate is driven by the level of sales to customers, as well as our own ability to make the vessel available to customers. The measure shows the combined efficiency of sales and operations	We had an initial guidance of 75–85% for 2017, but achieved a utilisation rate of 67%. The main reason for the shortfall was lower-than expected customer demand for major component replacement in Q2 and Q3 2017, as well as adverse weather conditions towards the end of the year
EBITDA	EBITDA is Earnings Before Interest, Tax, Depreciation and Amortisation	EBITDA is a good measure for operating efficiency and the ability to generate cash flows	We set an initial guidance of EUR 23-26m for 2017. We realised EBITDA of EUR 19.3m, as a consequence of lower than expected revenue
CASH FLOWS FROM OPERATING ACTIVITIES	Cash flows from operating activities is EBITDA mainly less working capital adjustments and financial items	Cash flows from operating activities is useful for assessing our ability to amortise debt, and cash available for CAPEX	We set an initial guidance of EUR 12-15m for 2017. We realised cash flows from operating activities of EUR 10.4m, mainly as a consequence of lower than expected EBITDA

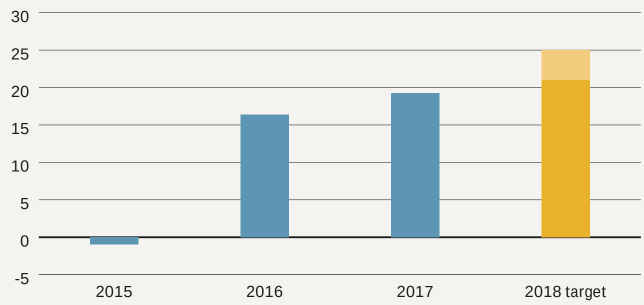
The KPIs applied are both financial and operational, internal and external, leading and lagging indicators. KPIs are maintained for different purposes in the organisation. To monitor the operational performance of individual vessels, we employ BIMCO's Shipping KPI system. At Group level, we monitor, among other things, utilisation of individual vessels, realised day rates, return on invested capital and employee turnover. The three main KPIs, disclosed externally, are elaborated upon in the table below.

TARGETS FOR 2018	PERFORMANCE
We target a weighted average utilisation rate of 75-85% for 2018	**Weighted average utilisation rate** Per cent
We target EBITDA in the range of EUR 21-25m for 2018	**EBITDA** EUR million
We target cash flows from operating activities in the range of EUR 11-15m for 2018	**Cash flows from operating activities** EUR million

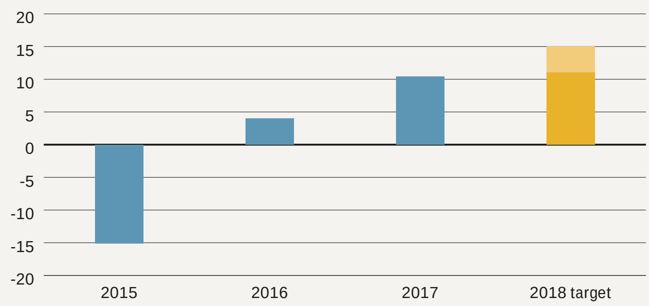
Weighted average utilisation rate
Per cent



EBITDA
EUR million



Cash flows from operating activities
EUR million



2017 PERFORMANCE REVIEW

The following is a review of the guidance provided to bondholders in terms of our performance in 2017.

We provided initial guidance to the bondholders when releasing our Q4 2016 report in February 2017.

With revenue disappointing in both Q2 and Q3 2017, we lowered our guidance in November 2017 when releasing our Q3 2017 results.

Unfortunately, adverse weather conditions towards the end of 2017 further affected the results achieved for 2017. The revised guidance and actual results are shown in the table below.

Several factors influenced the financial development in 2017.

BETTER THAN EXPECTED

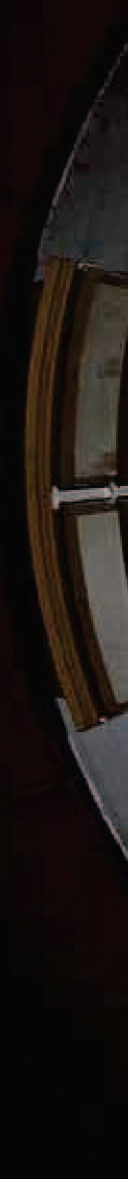
- J/U WIND SERVER was fully operational and on-hire during the entire year.

AS EXPECTED

- ZITON remains the only dedicated provider of O&M services for major component replacement, while potential competitors are more focused on installation projects.
- We maintained good customer relationships during the year and benefitted from key contracts with four of the leading players in the offshore wind industry.
- J/U WIND and J/U WIND PIONEER met expectations of operational availability.

WORSE THAN EXPECTED

- Towards the end of 2017, weather conditions were less favourable than what is normal for this part of the season. As a consequence, the number of days for which safe operations at sea were possible, was lower than normal.
- Market demand was somewhat lower than expected during Q2 and Q3 2017, as turbines had fewer breakdowns than projected. However, as it is difficult to accurately project the level of breakdowns, market demand may to some extent merely have been pushed into 2018.
- In the second half of the year, we saw some pricing pressure in the spot market, as vessels used for installation were not fully utilised. Thus, some of these vessels were periodically offered for O&M assignments.



	GUIDANCE FEBRUARY 2017	REVISED GUIDANCE NOVEMBER 2017	ACTUAL 2017
WEIGHTED AVERAGE UTILISATION RATE	75-85%	Around 70%	67%
EBITDA	EUR 23-26m	EUR 21-22m	EUR 19.3m
CASH FLOWS FROM OPERATING ACTIVITEES	EUR 12-15m	EUR 11-13m	EUR 10.4m
CAPEX	Up to EUR 5m	Up to EUR 4m	EUR 1.5m

OUTLOOK FOR 2018

Our strong contract portfolio underpins the outlook for 2018, which is also supported by our pipeline of specific and contracted major component replacements. The following sets out our guidance for our key performance indicators in 2018:

Weighted average utilisation rate

We expect a utilisation rate in the range of 75%-85%. The 2017 weighted average utilisation rate was 67%.

EBITDA

We expect EBITDA in the range of EUR 21-25m. This is a projected improvement from the 2017 EBITDA of EUR 19.3m driven mainly by higher revenue, as fixed costs account for most of the overall vessel OPEX.

Cash flow from operating activities

is defined as EBITDA less changes in working capital and financial payments. We expect cash flows from operating activities of EUR 11-15m, up from EUR 10.4m in 2017. The main reason for the projected improvement is the higher EBITDA.

CAPEX

We expect CAPEX of up to EUR 4.0m, compared to EUR 1.5m in 2017.

CAPITAL STRUCTURE

ZITON has a stable capital structure with debt maturing at the end of 2019.

On 26 November 2015, the company issued a EUR 100m bond, the proceeds of which were used to refinance existing debt. The bond was listed on the Oslo Stock Exchange in November 2016. The key terms of the bond are set out in note 4.3.

The illustration below shows the capital structure of the ZITON Group. The three vessels make up approximately 92% of the assets.

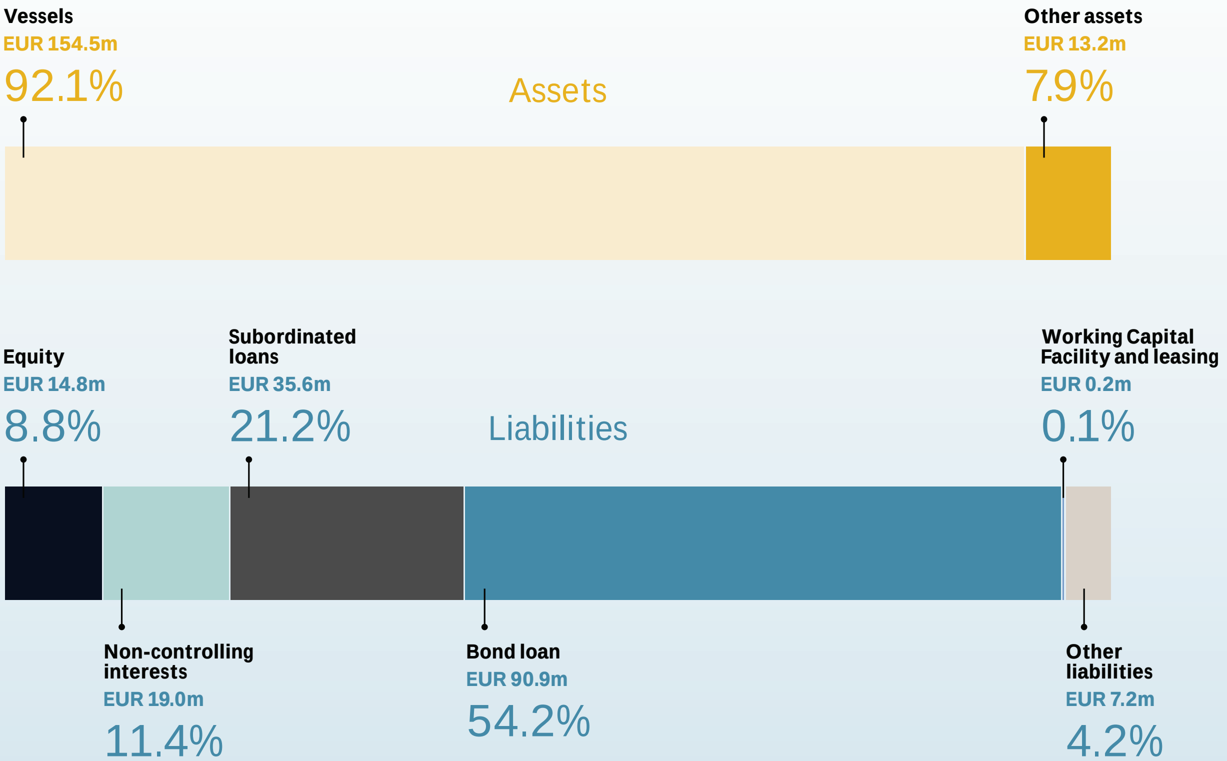
Subordinated capital makes up 41.5% of the assets. The equity is owned by BWB partners, Dansk Bjergning og Bugsering Holding ApS, OY Finans ApS and management. Non-controlling interests relate to Blue Water Capital's 50% ownership of Jack-Up InvestCo 3 Plc. The subordinated capital was provided by a Danish pension fund.

The senior debt consists of the original EUR 100m bond loan (with EUR 92m outstanding at the end of 2017) and a DKK 50m (≈EUR 6.7m) working capital facility. The working capital facility and the bond loan holds a joint security package with a 1st lien security in all three vessels.

The subordinated loan matures in December 2019. There are no instalments on the subordinated loan, and interest accrues until maturity with the exception of 2% annual interest payable in cash. The bond issue matures on 26 November 2019, and the working capital facility is renewed annually. The bond has semi-annual instalments of EUR 3.0m due on 26 May and 26 November. ZITON will be considering its refinancing options in 2018.

In addition, there is a cash sweep of liquidity in excess of EUR 5.0m. The cash sweep is measured semi-annually at the end of June and December, and the excess amount is repaid to bondholders at the subsequent interest payment date as a prepayment at a 2.0% premium.

CAPITAL STRUCTURE



KEY FIGURES

EUR '000	Danish GAAP* 2013	IFRS 2014	IFRS 2015	IFRS 2016	IFRS 2017
Income statement					
Revenue	11,044	10,433	9,138	29,042	33,227
EBITDA	5,502	4,635	-966	16,411	19,257
Income before tax	3,767	1,929	-21,154	-4,550	-1,841
Balance sheet items					
Non-current assets	105,330	164,966	173,108	167,370	161,011
Current assets	8,104	6,320	2,756	6,398	6,720
Total assets	113,434	171,286	175,864	173,768	167,731
Equity and subordinated capital	64,486	88,229	71,892	69,197	69,403
Current liabilities	21,426	11,442	5,983	10,975	8,703
Cash flows					
Net cash flows from operating activities	16,644	-5,427	-15,071	4,049	10,401
Net cash used in investing activities	-51,418	-29,535	-11,061	-2,378	-1,474
Net cash used/received in financing activities	27,722	33,415	25,029	-2,500	-5,500
Net change in cash and cash equivalents	-7,052	-1,547	-1,103	-829	3,427
Financial ratios and other key figures					
EBITDA margin	50%	44%	-11%	57%	58%
Subordinated capital ratio	57%	52%	41%	40%	41%
NIBD (adjusted for capitalised financing costs)	30,496	68,928	99,888	98,209	89,412
Loan to vessel ratio	31%	42%	60%	61%	58%
Total number of operating vessels (average)	1	1	2	3	3

*The key figures for 2013 have not been restated to comply with the International Financial Reporting Standards (IFRS).

Key ratios have been prepared in accordance with CFA Society Denmark's online version of "Recommendations & Ratios".

The ratios below are not defined in "Recommendations & Ratios" and are defined as follows:

Subordinated capital ratio $= \dfrac{\text{Total equity + Subordinated loans}}{\text{Total assets}}$

NIBD (adjusted for capitalised financing costs)
Senior Net Interest-Bearing Debt (NIBD) includes bond debt (adjusted for capitalised expenses), draw on working capital facility and finance lease liabilities less cash and cash equivalents.

Loan to vessel ratio $= \dfrac{\text{NIBD (adjusted for capitalised financing costs)}}{\text{Vessel book value}}$

STATEMENT BY THE BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

The Executive Management and the Board of Directors have today considered and adopted the annual report of ZITON A/S for the financial year 1 January to 31 December 2017.

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the financial statements of the parent company are prepared in accordance with the Danish Financial Statements Act. The management commentary is also prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the financial statements of the parent company give a true and fair view of the financial position at 31 December 2017 of the Group and the parent company and of the results of the Group's and the parent company's operations and the Group's consolidated cash flows for the financial year 2017.

In our opinion, the management commentary provides a fair review of the development in the operations and financial circumstances of the Group and the parent company, of the results for the year and of the financial position of the Group and the parent company as well as a description of the most significant risks and elements of uncertainty, which the Group and the parent company are facing.

We recommend that the annual report be adopted at the annual general meeting.

Horsens, 19 April 2018

EXECUTIVE MANAGEMENT

Thorsten Henrik Jalk

BOARD OF DIRECTORS

Vagn Lehd Møller Chairman	Niels Ørskov Christensen	Esben Bay Jørgensen
Ove Carsten Eriksen	Lars Thorsgaard Jensen	Morten Melin

INDEPENDENT AUDITOR'S REPORT

OPINION

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of ZITON A/S for the financial year 1 January - 31 December 2017, which comprise income statement, total income statement, balance sheet, statement of changes in equity, cash flow statement, notes and a summary of significant accounting policies, for both the Group and the Parent Company. The Consolidated Financial Statements are prepared in accordance with the International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act, and the parent company financial statements are prepared according to the Danish Financial Statements Act.

In our opinion, the Consolidated Financial Statements give a true and fair view of the financial position of the Group and of the results of the Group operations and cash flows for the financial year 1 January - 31 December 2017 in accordance with the International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

Further in our opinion the Parent Company Financial Statements give a true and fair view of the financial position of the Parent Company's and of the results of the Parent Company's operations and cash flows for the financial year 1 January - 31 December 2017 in accordance with the Danish Financial Statements Act.

Our opinion is consistent with our Auditor's Long-form Report to the Audit Committee and the Board Directors.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and the Parent Company Financial Statements" section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

To the best of our knowledge and belief, prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No 537/2014 were not provided.

We were first appointed auditors of ZITON A/S for the financial year 2008. We have been reappointed annually by shareholder resolution for a total period of uninterrupted engagement of 10 years including the financial year 2017.

KEY AUDIT MATTERS

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Statements for the financial year 2017. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter

Impairment test of jack-up vessels.

The value of the Group and the Parent Company tangible assets, of which the majority relates to jack-up vessels, is supported by value in use calculations, which are based on future cash flow forecasts.

We focused on this area because the impairment assessments of these assets are dependent on complex and subjective judgements by Management. The most critical assumptions are Management's review on expected revenue and WACC. Expected revenue has been forecast on expected utilisation rates and time charter rates.

Management's assessment is based on the cash-generating unit (CGU) for all three jack-up vessels.

The key assumptions related to jack-up vessels are described in note 3.1.

How our audit addressed the Key Audit Matter

We considered the overall impairment assessments prepared by the Management and tested the relevant internal controls in place to check that the Group's assets are valued appropriately according to the requirements in International Financial Reporting Standards.

We considered the assumptions and estimates used to determine the value in use of these assets. This includes those relating to time charter rates, expected utilisation rates and daily running costs. We tested these assumptions by reference to third-party documentation where available, such as signed charter contracts and signed framework agreements with customers.

We also assessed the Management's underlying key assumptions including review of future short- and long-term charter rates and utilisation rates. We used valuation specialists to assess the discount rates (WACC) used by Management.

We assessed the appropriateness of Management's presentation of these matters in the financial statements.

STATEMENT ON MANAGEMENT'S REVIEW

Management is responsible for Management's Review.

Our opinion on the Consolidated Financial Statements and the Parent Company Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Consolidated Financial Statements and the Parent Company Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Consolidated Financial Statements or the Parent Company Financial Statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated. Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of Management's Review.

MANAGEMENT'S RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE PARENT COMPANY FINANCIAL STATEMENTS

Management is responsible for the preparation of Consolidated Financial Statements and Parent Company Financial Statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of Consolidated Financial Statements and Parent Company Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements and the Parent Company Financial Statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the Consolidated Financial Statements and the Parent Company Financial Statements unless Management either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE PARENT COMPANY FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements and the Parent Company Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Statements and Parent Company Financial Statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Consolidated Financial Statements and the Parent Company Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Consolidated Financial Statements and the Parent Company Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated Financial Statements and the Parent Company Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the Consolidated Financial Statements and the Parent Company Financial Statements, including the disclosures, and whether the Consolidated Financial Statements and the Parent Company Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Hobro, 19 April 2018
BDO Statsautoriseret revisionsaktieselskab
CVR-no. 20 22 26 70

Michael Graversen
State Authorised Public Accountant
MNE no.: mne34099

Claus Muhlig
State Authorised Public Accountant
MNE no.: mne26711

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READING GUIDE:
The following abbreviations I/S, B/S and C/F used in the notes to these financial statements indicate amounts that can be found in the income statement, balance sheet and cash flow statement respectively.

INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME **1 JANUARY - 31 DECEMBER**

INCOME STATEMENT

EUR '000	Note	2017	2016
Revenue	2.1	**33,227**	**29,042**
Project-related expenses		-1,281	-1,161
Operating expenses		-8,196	-7,846
Gross profit		**23,750**	**20,035**
Administrative expenses		-1,712	-1,294
Staff costs, office staff	2.2	-2,781	-2,330
EBITDA		**19,257**	**16,411**
Depreciation and amortisation	3.1	-7,930	-7,775
EBIT		**11,327**	**8,636**
Financial income	4.4	-	954
Financial expenses	4.4	-13,168	-14,140
Income before tax		**-1,841**	**-4,550**
Tax on profit (loss)	5.1	-1,143	-1,254
Income for the year		**-2,984**	**-5,804**
Attributable to:			
Shareholders of ZITON A/S		-6,321	-8,184
Non-controlling interests		3,337	2,380
Income for the year		**-2,984**	**-5,804**

STATEMENT OF COMPREHENSIVE INCOME

EUR '000	Note	2017	2016
Income for the year		**-2,984**	**-5,804**
Items that will be reclassified subsequently to the income statement when specific conditions are met:			
Reserve for equity settled warrants		-	7
Exchange adjustments of foreign entities, net of tax		1	41
Total comprehensive income for the year, after tax		**-2,983**	**-5,756**
Attributable to:			
Owners of ZITON A/S		-6,320	-8,136
Non-controlling interests		3,337	2,380
Total comprehensive income for the year, after tax		**-2,983**	**-5,756**

REVIEW OF THE INCOME STATEMENT FOR 2017

Revenue
For the full year 2017, net revenue was EUR 33.2m compared to EUR 29.0m in 2016. The main driver of the revenue increase was the charter of J/U WIND SERVER to Siemens Gamesa Renewable Energy since 14 March 2016, as the vessel generated limited revenue in Q1 2016.

Expenses
Total expenses in ZITON increased to EUR 14.0m in 2017 from EUR 12.6m in 2016.

Project-related expenses
Project-related expenses increased to EUR 1.3m in 2017 from EUR 1.2m in 2016. The main reason for the EUR 0.1m increase was costs resulting from a higher level of activity.

Operating expenses
Operating expenses increased to EUR 8.2m in 2017 from EUR 7.8m in 2016. The main reason for the EUR 0.4m increase was the higher level of activity.

Administrative expenses
Administrative expenses amounted to EUR 1.7m in 2017 compared to EUR 1.3m in 2016. The increase of EUR 0.4m was mainly due to one-off costs related to a strategy project carried out in Q1 2017.

Staff costs, office staff
Salaries for office staff increased to EUR 2.8m in 2017 from EUR 2.3m in 2016. The main reason for the increase of EUR 0.5m was an increase in office staff as a consequence of the higher level of activity.

EBITDA
EBITDA was a EUR 19.3m profit for 2017 compared to EUR 16.4m for 2016. The main driver of the improvement in EBITDA was the higher revenue. The initial guidance for 2017 EBITDA was in the range of EUR 23-26m, as reported in the Q4 2016 interim report in February 2017. As revenue in both Q2 and Q3 2017 disappointed, we reduced our guidance to a range of EUR 21-22m in November 2017 when releasing our Q3 2017 interim report. Unfortunately, adverse weather conditions towards the end of 2017 further affected our reported results for 2017.

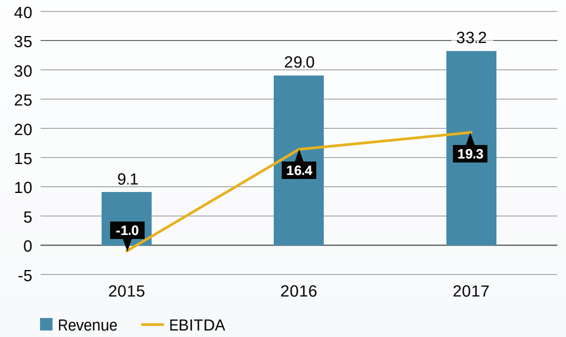
Depreciation and amortisation
Depreciation charges amounted to EUR 7.9m for 2017 compared to EUR 7.8m for 2016. The increase, albeit small, mainly reflects higher depreciation on J/U WIND following the five-year classification renewal of the vessel at the beginning of 2016.

Net financials
Financials, net was an expense of EUR 13.2m in 2017, which was largely unchanged from 2016. Financial income and expenses are described further in note 4.4.

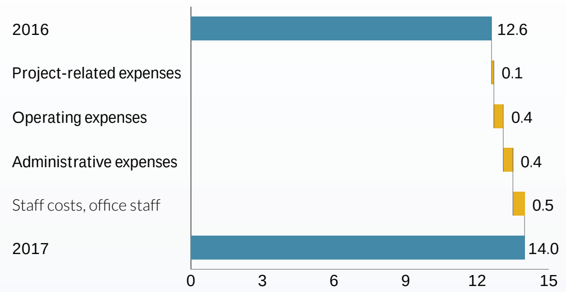
Tax on profit (loss)
Income before tax was a EUR 1.8m loss for 2017 compared to a EUR 4.6m loss for 2016. Tax on profit was an expense of EUR 1.1m. Taxation is described further in note 5.1

Non-controlling interests
BWC S.A. owns 50% of the Malta-based company Jack-Up InvestCo 3 Plc. Non-controlling interests of EUR 3.3m represents 50% of the Income for the year in Jack-Up InvestCo 3 Plc.
ZITON A/S bareboat charter J/U WIND SERVER from Jack-Up InvestCo 3 Plc.

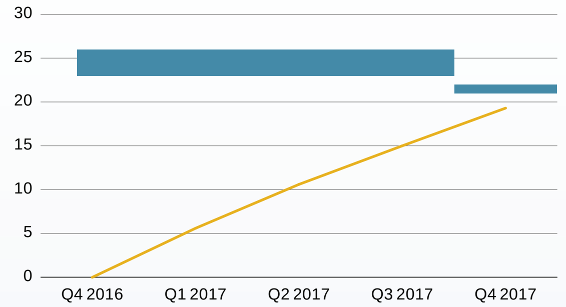
Revenue & EBITDA
EUR million



Expenses
EUR million



Accumulated EBITDA & Expected range
EUR million



BALANCE SHEET
31 DECEMBER

ASSETS

EUR '000	Note	2017	2016
Non-current assets			
Vessels, including fixtures & equipment	3.1	154,517	161,313
Intangible assets	3.2	105	-
Financial assets	3.3	6,055	6,057
Deferred tax assets	5.2	334	-
Non-current assets		**161,011**	**167,370**
Current assets			
Inventories		39	-
Trade and other receivables	3.5	3,928	4,454
Cash and cash equivalents	4.2	2,753	1,944
Current assets		**6,720**	**6,398**
Total assets		**167,731**	**173,768**

EQUITY AND LIABILITIES

EUR '000	Note	2017	2016
EQUITY			
Share capital		11,093	11,093
Reserves		189	188
Retained earnings		3,517	9,838
Total equity attributable to shareholders of ZITON A/S		**14,799**	**21,119**
Non-controlling interests		19,044	15,705
Total equity		**33,843**	**36,824**
LIABILITIES			
Non-current liabilities			
Subordinated loans	4.3	35,560	32,373
Bank and bond loans	4.3	85,596	90,919
Deferred income tax liabilities	5.2	4,029	2,441
Provision for other liabilities	3.4	-	236
Total non-current liabilities		**125,185**	**125,969**
Current liabilities			
Bank and bond loans	4.3	5,492	7,590
Trade and other payables	3.6	2,008	2,762
Provision for other liabilities	3.4	1,203	623
Total current liabilities		**8,703**	**10,975**
Total liabilities		**133,888**	**136,944**
Total equity and liabilities		**167,731**	**173,768**

REVIEW OF THE BALANCE SHEET 2017

Vessels, including fixtures & equipment
The total value of the vessels amounted to EUR 154.5m at the end of 2017, compared to EUR 161.3m at the end of 2016. The reduced value of EUR 6.8m reflects depreciation that was partly offset by CAPEX of EUR 1.4m.

Net working capital
Changes in working capital were negative in the amount of EUR 0.2m in 2017, as changes in trade payables were higher than changes in trade receivables.

Inventories
Effective from 2017, bunker is presented as inventory, at a value of EUR 0.0m.

Trade receivables
Trade receivables decreased from EUR 4.2m in 2016 to EUR 3.6m mainly due to lower revenue in the latter parts of 2017 compared to the year before.

Trade payables
Trade payables decreased from EUR 1.5m in 2016 to EUR 0.7m, due to the higher level of activity in the latter parts of 2016 compared to the same period of 2017.

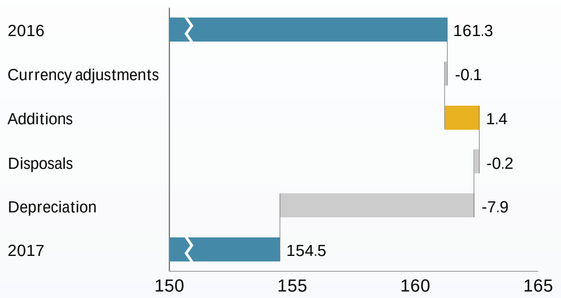
Equity
Total equity declined to EUR 33.8m at the end of 2017 from EUR 36.8m at end 2016. The EUR 3.0m decline mainly relates to losses for the period.

Subordinated capital ratio
The subordinated capital ratio (defined as total equity plus subordinated capital divided by total assets) at 31 December 2017 was 41.5%. This is an increase compared to 39.8% at 31 December 2016. The increase is mainly a consequence of a reduction of assets due to depreciation of vessels and a slight increase in subordinated capital. The subordinated capital ratio has a safe margin relative to the company's only financial covenant, which requires a subordinated capital ratio of 34.0% or higher at 31 December 2017.

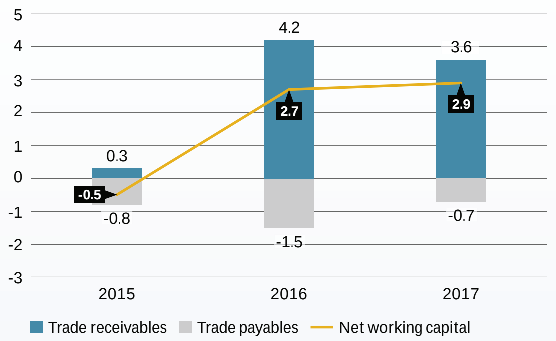
Net Interest Bearing Debt (NIBD)
NIBD includes bond debt (adjusted for capitalised expenses), the amount drawn on the working capital facility and finance lease liabilities less cash and cash equivalents.

Change in NIBD
NIBD decreased from EUR 98.2m in 2016 to 89.4m in 2017. The decrease was due to a positive EBITDA of EUR 19.3m, which was partly offset by working capital adjustments, CAPEX and finance costs.

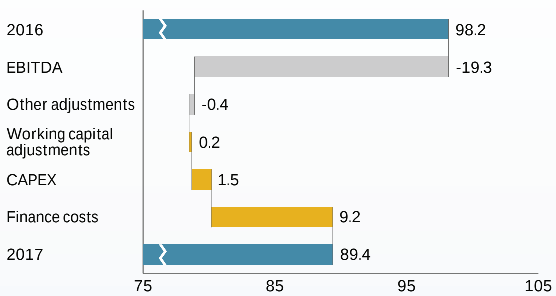
Vessels, including fixtures & equipment
EUR million



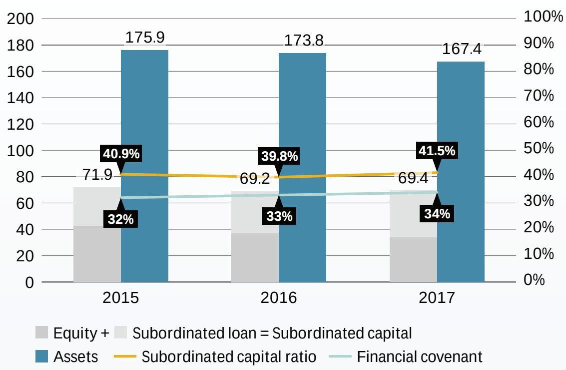
Net working capital
EUR million



Change in NIBD
EUR million



Subordinated capital ratio
EUR million · Percent



CASH FLOW STATEMENT
1 JANUARY - 31 DECEMBER

EUR '000	Note	2017	2016
Income before tax		**-1,841**	**-4,550**
OPERATING ACTIVITIES			
Adjustments for non-cash items			
Reversal of financial expenses, net	4.4	13,156	13,186
Depreciation and writedowns for the period	3.1	7,930	7,775
Other adjustments		473	632
Working capital adjustments			
Changes in inventories		-39	-
Change in trade receivables		624	-3,872
Change in trade payables		-737	619
Financial payments			
Financial receipts		-	-
Financial payments		-9,165	-9,741
Income tax expense			
Income tax expense		-	-
Net cash flows from operating activities		**10,401**	**4,049**
INVESTING ACTIVITIES			
Purchase of vessel, including fixtures & equipment (excl. interest)	4.4 + 3.1	-1,474	-2,378
Net cash used in investing activities		**-1,474**	**-2,378**
FINANCING ACTIVITIES			
Repayment of debt to bank and bond holders	4.5	-5,500	-2,500
Net cash used/received in financing activities		**-5,500**	**-2,500**
Net change in cash and cash equivalents		**3,427**	**-829**
Cash and cash equivalents at beginning of period	4.2	-670	162
Exchange gains/losses on cash and cash equivalents		-4	-3
Cash and cash equivalents at end of period [1]	4.2	**2,753**	**-670**

1) Cash and cash equivalents in the cash flow statement include drawings on working capital facility.

REVIEW OF CASH FLOWS FOR 2017

Operating activities
Cash flows from operating activities were an inflow of EUR 10.5m in 2017 as a result of positive EBITDA, which was partly offset by financial payments.

Investing activities
Investing activities amounted to EUR 1.5m in 2017 which was significantly less than in previous years, when investment in J/U WIND SERVER and J/U WIND PIONEER were ongoing. The guidance for 2018 is for CAPEX of up to EUR 4.0m.

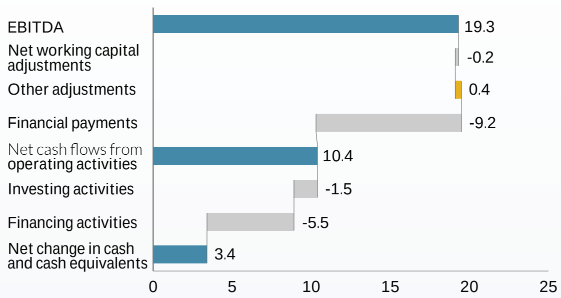
Financing activities
EUR 5.5m was repaid to bondholders during 2017. In 2018, EUR 6.0m will be repaid to bondholders, excluding any cash sweep.

Available liquidity
According to the bond agreement, the Super Senior Working Capital Facility was reduced from DKK 75m (≈EUR 10.1m) to DKK 50m (≈EUR 6.7m) on 26 November 2016.

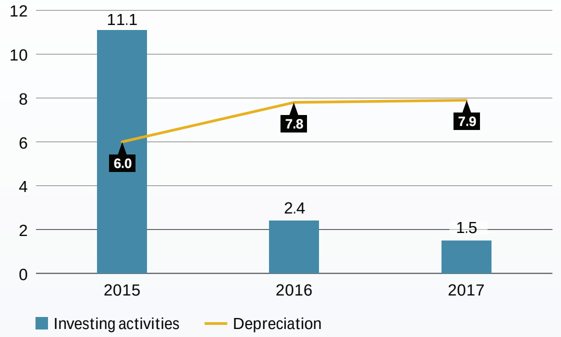
Available liquidity including the amount available under the working capital facility amounted to EUR 8.3m at the end of 2017 consisting of:

EUR million	2015	2016	2017
Cash and cash equivalents	2.1	1.9	2.8
Cash on retention account	-0.7	-1.1	-1.2
Liquidity	**1.4**	**0.8**	**1.6**
Working capital facility	-2.0	-2.6	0.0
Available draw	10.1	6.7	6.7
Available liquidity	**9.5**	**4.9**	**8.3**

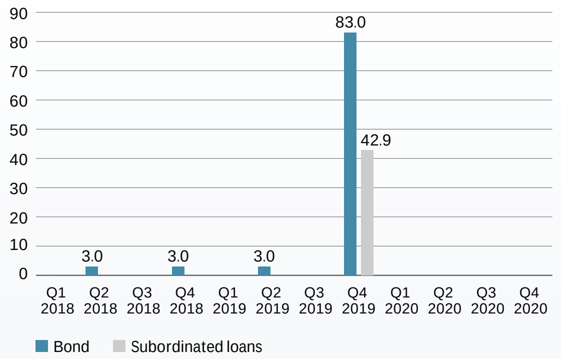
Cash flows
EUR million



Investing activities vs. depreciation
EUR million



Debt repayment next three years
EUR million



STATEMENT OF CHANGES IN EQUITY

2017 EUR '000	Attributable to shareholders of ZITON A/S Share capital	Reserve for warrants	Translation reserves	Total reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 31 December 2016	**11,093**	**143**	**45**	**188**	**9,838**	**21,119**	**15,705**	**36,824**
Reserve for equity settled warrants	-		-	-	-	-	-	-
Total comprehensive income for the year, after tax	-	-	1	1	-6,321	-6,320	3,339	-2,981
Balance at 31 December 2017	**11,093**	**143**	**46**	**189**	**3,517**	**14,799**	**19,044**	**33,843**

Share capital
At the end of 2017, the share capital consisted of 82,782,192 shares of DKK 1 each (EUR 11,093K). The shares are divided into two classes: 11,118,416 A shares of DKK 1 each and 67,663,782 B shares of DKK 1 each. Each A share carries one vote, while B shares do not carry voting rights, but carry preferential rights of dividend.

ACCOUNTING POLICIES

Reserves on equity consist of the following:
Reserve for warrants consist of warrants to management, selected employees and a subordinated loan provider
The translation reserve comprises foreign exchange differences arising on translation of financial statements of entities that have a functional currency other than DKK and translation from the functional currency to the the presentation currency.

2016 EUR '000	Attributable to shareholders of ZITON A/S Share capital	Reserve for warrants	Translation reserves	Total reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 31 December 2015	**11,093**	**136**	**4**	**140**	**18,021**	**29,254**	**13,326**	**42,580**
Reserve for equity settled warrants	-	7	-	7	-	7	-	7
Total comprehensive income for the year, after tax	-	-	41	41	-8,183	-8,142	2,379	-5,763
Balance at 31 December 2016	**11,093**	**143**	**45**	**188**	**9,838**	**21,119**	**15,705**	**36,824**

Share capital
At the end of 2016, the share capital consisted of 82,782,192 shares of DKK 1 each (EUR 11,093K). The shares are divided into two classes: 11,118,416 A shares of DKK 1 each and 67,663,782 B shares of DKK 1 each. Each A share carries one vote, while B shares do not carry voting rights, but carry preferential rights of dividend.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.1 BASIS OF REPORTING

GENERAL INFORMATION

ZITON A/S is a public limited company incorporated in Horsens, Denmark.

ZITON A/S is controlled by Jack-Up Holding A/S (registered office: Fredensborg, Denmark), which holds 59.5% of the share capital in ZITON A/S. Dansk Bjergning & Bugsering Holding ApS (registered office: Mariagerfjord, Denmark) and OY Finans ApS (registered office: Frederikshavn, Denmark) hold 25.1% and 14.8% of the share capital respectively. The remaining shares, equivalent to 0.6% of the share capital, are held by management. The ultimate parent of the Group is Jack-Up Holding A/S's holding company Anpartsselskabet af 1. december 2011 ApS.

ZITON A/S is consolidated in the financial statements of Jack-Up Holding A/S (registered office: Fredensborg, Denmark) and 1. december 2011 ApS (registered office: Fredensborg, Denmark).

The consolidated financial statements of ZITON A/S have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for annual reports of reporting class D companies.

The accounting policies are unchanged from last year.

The consolidated financial statements are presented in EUR thousands (EUR´000).

The financial statements have been prepared on a historical cost basis except for certain financial assets that are measured at fair value at the end of each reporting period, as explained in the accounting policies for note 3.3.

Significant accounting policies adopted in the preparation of these consolidated financial statements are disclosed in relevant notes, if no relevant note exists, the accounting policies are listed in this note. These policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements are for the group consisting of ZITON A/S and its subsidiaries.

Furthermore, significant accounting judgments, estimates and assumptions used in these consolidated financial statements are disclosed in relevant notes. If no relevant note exists, the significant accounting judgments, estimates and assumptions are listed in this note.

ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company. Control is achieved when the company:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee, and;
- has the ability to use its power to affect its returns.

The company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The company considers all relevant facts and circumstances in assessing whether or not the company's voting rights in an investee are sufficient to give it power, including:

- the size of the company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the company, other vote holders or other parties;
- rights arising from other contractual arrangements, and;
- any additional facts and circumstances that indicate that the company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the company obtains control over the subsidiary and ceases when the company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the company gains control until the date when the company ceases to control the subsidiary.

The consolidated financial statements of ZITON A/S Group consist of the 100% owned subsidiaries Jack-Up InvestCo 2 A/S (registered office: Horsens, Denmark) and ZITON Contractors A/S (registered office: Horsens, Denmark), and the 50% owned company Jack-Up InvestCo 3 Plc. (registered office: Qormi, Malta), which management has evaluated can be 100% consolidated according to IFRS 10.

Profit or loss and each component of other comprehensive income are attributed to the shareholders of ZITON A/S and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the shareholders of the company and to the non-controlling interests even if this results in the non-controlling interest having a deficit balance.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

The financial details of non-controlling interests are listed below.

Details of non-controlling interests	2017 EUR '000	2016 EUR '000
Income statement		
Revenue	7,839	7,564
EBITDA	7,821	7,545
Total comprehensive income	3,337	2,380
Balance sheet items		
Non-current assets	36,673	38,363
Current assets	19,516	10,393
Equity	19,044	15,705
Non-current liabilities	37,141	33,046
Current liabilites	5	5
Cash flow		
Net change in cash and cash equivalents	-18	-18
Dividends paid to non controlling interests	-	-

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Foreign currencies

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Although the functional currency for ZITON A/S is DKK, the consolidated financial statements are presented in euro because the main financing is in euro.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are generally recognised in profit or loss. They are deferred in equity if they are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement under financial income/expenses. All other foreign exchange gains and losses are presented in the income statement on a net basis under revenue or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and;
- all resulting exchange differences are recognised in other comprehensive income.

Foreign currency translation

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss as part of the gain or loss on sale.

Inventories

Inventories primarily comprise bunker onboard vessels. Inventories are measured at the lower of cost according to the FIFO method and net realisable value. In 2017, EUR 292k (2016: EUR 280k) was recognised as an expense under operating expenses.

Leasing

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 3.1 Vessels and equipment). Finance leases are capitalised at the inception of the lease at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and financial expenses. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 6.1 Commitments and contingencies). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Income statement

Project-related expenses

Project-related expenses consist of expenses in relation to projects and primarily involve expenses to subcontractors, tugboat, seabed analysis and special equipment used for operations. Like revenue, operating costs are recognised upon delivery of the service.

Operating expenses

Operation of vessels comprises expenses other than project-related expenses incurred to generate the revenue for the year. Vessel operating costs are divided into fixed and variable expenses. As vessel are obligated by law to have a minimum crew, staff expenses for employees are considered a fixed expense. Fixed expenses include, insurance, maintenance expenses, staff costs etc. Variable expenses include bunker, grease and other expenses to move the vessel. Like revenue, operating costs are recognised upon delivery of the service.

Administrative expenses

Administrative expenses comprise cost of rent, travel, external expenses and other office expenses etc. Administrative expenses are recognised upon delivery of the service.

Cash flows

The cash flow statement shows the cash flows from operating, investing and financing activities for the year, the year's changes in cash and cash equivalents as well as cash and cash equivalents at the beginning and end of the year.

Cash flows from operating activities are calculated according to the indirect method as the income before tax adjusted for non-cash operating items, changes in working capital, interest payments and income taxes paid.

Cash flows from investing activities comprise payments in connection with acquisitions and disposals of intangible assets, property, plant and equipment and other non-current assets.

Cash flows from financing activities comprise changes in the share capital and related costs as well as the raising of loans, repayment of bank and bond debt, acquisition and disposal of subordinated debt and payment of dividends to shareholders.

SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial reporting requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of asset and liability affected in future periods.

Judgments

In the process of applying ZITON A/S's accounting policies, management has made the following judgments which have the most significant effects on the amounts recognised in the financial statements.

100% consolidation of Jack-Up InvestCo 3 Plc.

According to IFRS, the consolidation principle is an overall evaluation of the

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee, and;
- the ability to use its power over the investee to affect the amount of the investor´s return.

Based on management's evaluation of the above and our unconditional right to purchase the remaining shares, Jack-Up InvestCo 3 Plc. is 100 % consolidated in the balance sheet from 1 January 2014.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that involve a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed in relevant notes listed below.

The accounting estimates and assumptions which management deems to be significant to the preparation of the consolidated financial statements are:

- Impairment of vessels (note 3.1)
- Valuation of financial assets (note 3.3)
- Leases (note 3.1 and 6.1)
- Trade receivable (note 3.5)
- Deferred tax (note 5.2)
- Provisions (note 3.4)
- Contingent liabilities (note 6.1)

RELEVANT NEW ACCOUNTING STANDARDS

ZITON A/S has adopted the following amended standards and interpretations from 1 January 2017.

Amendments to IAS 7 Disclosure Initiative was published in January 2016 and requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities (note 4.5 Reconciliation of financial liabilities).

Amendments to IAS 12 Recognition of deferred tax assets for unrealised losses was published in January 2016 and clarifies the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value. The adoption of the amended standards and interpretations has not had a significant impact on recognition or measurement in the consolidated financial statments for 2017, and is not anticipated to have a significant impact on future periods.

Annual Improvements to IFRSs (2014-2016) was published in December 2016 and contains minor changes to three standards.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The IASB has issued a number of new or amended standards and interpretations that are not mandatory for the consolidated financial statements for 2017. ZITON A/S expects to adopt the standards and interpretations when they become mandatory. None of these amended standards or interpretations are expected to have a significant impact on recognition and measurement, but may lead to further disclosures in the notes.

IFRS 15 – Revenue from Contracts with Customers was published in May 2014 and established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The standard requires extensive disclosures. The standard is effective for annual periods beginning on or after 1 January 2018. In 2016/2017, we applied the five-step model framework on our current revenue streams and did not identify any significant effect on recognition and measurement. It is expected, however, that disclosure requirements regarding contracts receivables will increase. The standard will be implemented using the modified retrospective method. ZITON will make use of the relief option of not restating comparative figures and will only apply IFRS 15 to contracts that were not completed as of 1 January 2018.

IFRS 16 - Leases. For the lessee, the distinction between finance and operating leases will be eliminated. In the future, operating leases must be recognised in the balance sheet with an asset and a corresponding lease commitment. The standard takes effect in 2019 and is not expected to have a significant effect on the consolidated financial statements. It is estimated that assets and liabilities will increase by EUR 600k in January 2019 based on current operational lease contracts. The effect on the income statement 2019 will be an estimated reduction in operating expenses of EUR 170k, which will be offset in additional depreciation of EUR 150k and leasing interests of EUR 50k.

IFRS 9 - Financial instruments. The number of categories of financial assets is reduced to three: amortised cost category, fair value through other comprehensive income category and fair value through the income statement category. Simplified rules regarding hedge accounting are introduced, and impairment of receivables must be based on expected loss. The standard comes into force in 2018 and is not expected to have a significant effect on the consolidated financial statements.

2.1 SEGMENT REPORTING

The internal reporting framework used for reporting on revenue and expenses to the Executive Management team and the Board of Directors has been set up to reflect and report on vessel revenue and expenses. As all three vessels operate on similar assignments, management reviews the results of the Group as a whole to assess performance. Thus, there is only one operating segment.

Revenue
The Group operates in northern Europe. The geographical distribution of fixed-priced revenue is based on the country in which the wind farm is located. For time charter contracts, the geographical distribution is based on the position of the vessel, during the contract.

Geographical distribution of revenue

EUR '000		2017	2016
Denmark		11,981	11,528
United Kingdom		18,737	12,586
Germany		1,030	3,990
Holland		1,479	756
Belgium		-	182
Total	**I/S**	**29,042**	**29,042**

Sales to the two largest customers made up 72% and 10%, respectively, of total revenue in 2017 (2016: 68% and 15%, respectively).

ACCOUNTING POLICIES

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are reduced for estimates for trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each engagement.

For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided (percentage of completion method).

For vessels on time charters, that is operating leases, charter hire is recognised on a straight-line basis over the term of the lease.

2.2 STAFF COSTS

Total staff costs in the Group

EUR '000		2017	2016
Staff costs, office staff			
Wages and salaries		2,566	2,147
Pensions – defined contribution plans		201	146
Other social security costs		14	37
Total office staff	**I/S**	**2,781**	**2,330**
Vessel staff - the amount is included in "Operating expenses"			
Wages and salaries		3,648	2,817
Pensions – defined contribution plans		252	207
Other social security costs		44	29
Total vessel staff		**3,944**	**3,053**
Total staff costs		**6,726**	**5,383**

Average number of employees

	2017	2016
Office staff	23	21
Vessel staff, Danish nationalities	55	50
Vessel staff, other EU nationalities	18	18
Total employees	**96**	**90**

The Group measures the employee turnover in accordance with Bimco shipping KPI system. For all of 2017, the officer retention rate was 98% (2016: 93%).

3.1 VESSELS AND EQUIPMENT

2017 EUR '000		Fixtures & equipment	Vessels	Total
Cost at 1 January		692	183,395	184,087
Transferred between asset categories		-254	254	-
Exchange rate adjustments		-1	-140	-141
Additions		539	901	1,440
Disposals		-201	-115	-316
Cost at 31 December		**775**	**184,295**	**185,070**
Depreciation at 1 January		-317	-22,457	-22,774
Transferred between asset categories		132	-132	-
Exchange rate adjustments		-	19	19
Depreciation	I/S	-121	-7,798	-7,919
Disposals		111	9	120
Depreciation at 31 December		**-195**	**-30,359**	**-30,554**
Impairment losses at 1 January		-	-	-
Impairment losses at 31 December		-	-	-
Carrying amount at 31 December	**B/S**	**580**	**153,936**	**154,516**
- of which capitalised interests, at an average interest rate of 11.7% (capitalised in 2017: EUR 0k)			17,392	17,392

At 31 December 2017, EUR 195k of the carrying amount of fixtures & equipment was car finance leases.

3.1 VESSELS AND EQUIPMENT (CONTINUED)

2016 EUR '000		Fixtures & equipment	Vessels	Total
Cost at 1 January		779	180,679	181,458
Exchange rate adjustments		1	365	366
Additions		131	2,351	2,482
Disposals		-219	-	-219
Cost at 31 December		**692**	**183,395**	**184,087**
Depreciation at 1 January		-301	-14,805	-15,106
Exchange rate adjustments		-1	-43	-44
Depreciation	I/S	-164	-7,609	-7,773
Disposals		149	-	149
Depreciation at 31 December		**-317**	**-22,457**	**-22,774**
Impairment losses at 1 January		-	-	-
Impairment losses at 31 December		-	-	-
Carrying amount at 31 December	**B/S**	**375**	**160,938**	**161,313**
– of which capitalised interests, with an average interest rate of 11.7% (capitalised in 2017: EUR 0k)			18,141	18,141

At 31 December 2016, EUR 37k of the carrying amount of fixtures & equipment was car finance leases.

Impairment of vessels
Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised at the amount by which the asset's carrying amount exceeds its recoverable amount – measured using the higher of the fair value less cost to sell and value in use. An impairment loss is recognised if the higher of the fair value less cost to sell and value in use is less than the carrying amount of the assets.

The value in use is calculated as the present value of the total expected cash flows during the rest of the vessels' economic lives. This includes any concluded framework agreements and signed charters and by using estimated utilisation and average day rates for the "open charter periods".

- The estimated utilisation is based on projected future installation of offshore turbines, the average rate at which a turbine needs assistance from a jack-up vessel in the turbine's lifetime and ZITON´s expected market share.
- Average day rates are based on either already signed framework agreement or historical prices.

Hence, the exact value used to measure impairment charges is subject to uncertainty and is based on what the company believes is the best estimate of the fair value. The budget used for the impairment test is based on a five-year period and a terminal period.

Management's assessment of indication of impairment on vessels is based on the cash-generating unit (CGU) in which all vessels are included.

As cash flows from the CGU in 2017 were lower than expected, an impairment test is carried out based on value in use. The impairment test is performed by estimating the recoverable amount at value in use calculated as the present value of the total expected cash flows during the rest of the vessels' economic lives and a determined WACC of 8.1% and a growth rate in the terminal period of 0%. The value in use was estimated to be materially higher than the carrying amount of EUR 153,936k.

Management assesses that the long-term value at the close of the financial year exceeds the carrying amount, and that, accordingly, there is no indication of impairment.

3.1 VESSELS AND EQUIPMENT (CONTINUED)

SIGNIFICANT ESTIMATES AND ASSUMPTIONS – IMPAIRMENT OF VESSELS

Significant accounting estimates include i.e. estimates of useful lives, residual values and impairment on tangible assets.

Useful lives of the vessels

The useful lives of the vessel are assessed annually by the COO. At the current depreciation rate, vessels are fully depreciated over 14 to 25 years.

Residual values

The residual values of the vessels are estimated at zero as it is expected that scrapping of the vessels will include expenses equivalent to the price of steel.

Impairment

Revenue for "open charter periods" is estimated based on projected future installation of offshore turbines, the average rate which a turbine needs assistance from a jack-up vessel in the turbine's lifetime and ZITON´s expected market share. Average day rates are based on either already signed framework agreement or historical prices. The value in use calculation is sensitive to fluctuations in expected day rates and utilisation of the vessels. However, an increase of the WACC of 2 basis points to 10.2% or a reduction of either 10% in utilisation or day rates will not lead to a value in use lower than the current carrying amount of the vessels.

SIGNIFICANT ESTIMATES AND ASSUMPTIONS – LEASES

Management's assessment of whether leases of assets should be classified as finance or operating leases is based on an overall evaluation of each lease. In finance leases, a non-current asset and a payable are recognised. In classification as operating leases, the regular lease payments are generally recognised in the income statement.

ACCOUNTING POLICIES

The Group's accounting policy for vessels and fixtures and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. This includes capitalised staff costs and interest.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

The basis of depreciation is allocated on a straight-line basis over the estimated useful lives of the assets as follows:

Vessels:	between 20 and 30 years
Installed equipment on vessels:	between 3 and 12 years
Machinery & tools:	between 3 and 10 years

Docking costs of the vessels are capitalised and depreciated over the period until the next docking, typically 5 years.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in profit or loss. When revalued assets are sold, it is group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

3.2 INTANGIBLE ASSETS

2017 EUR '000		Software	Total
Cost at 1 January		-	-
Exchange rate adjustments		-	-
Additions		108	108
Disposals		-	-
Cost at 31 December		**108**	**108**
Depreciation at 1 January		-	-
Exchange rate adjustments		-	-
Amortisation	I/S	-3	-3
Disposals		-	-
Depreciation at 31 December		**-3**	**-3**
Impairment losses at 1 January		-	-
Impairment losses at 31 December		-	-
Carrying amount at 31 December	**B/S**	**105**	**105**

ACCOUNTING POLICIES

The Group's accounting policy for intangible assets is stated at historical cost less amortisation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The basis of amortisation is allocated on a straight-line basis over the estimated useful lives of the assets as follows:

Software: between 3 and 7 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

3.3 FINANCIAL ASSETS

ZITON A/S has a call option to acquire all remaining shares in Jack-Up InvestCo 3 Plc. from the co-investor (the non-controlling interests).

In 2015, a prepayment of EUR 6,057k on the call option was made to the non-controlling interest as part of the revised capital structure for the Group.

As there is no active market for this option, the financial assets are measured at cost less impairment.

2017 EUR '000		Assets at fair value through P/L	Total
Fair value at 1 January		6,055	6,055
Fair value at 31 December	**B/S**	**6,055**	**6,055**

2016 EUR '000		Assets at fair value through P/L	Total
Fair value at 1 January		6,057	6,057
Fair value at 31 December	**B/S**	**6,057**	**6,057**

SIGNIFICANT ESTIMATES AND ASSUMPTIONS – FINANCIAL ASSETS

As the financial asset is measured at cost less impairment, significant accounting estimates include estimates of impairment on financial assets.
Impairment will occur if management does not intend to use the call option, or if the vessel owned by Jack-Up InvestCo 3 Plc. does not generate the expected future value.

As part of the vessel impairment test we did not recognise any impairment losses, hence the value of EUR 6.055k for the prepayment of the call option is appropriate.

ACCOUNTING POLICIES

The group classifies its financial assets in the following categories:

- inancial assets at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments, and
- available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

On initial recognition, the group measures a financial asset at its fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

"Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value for 'financial assets at fair value through profit or loss' are recognised as follows in profit or loss within other income or other expenses. If there is no active market for the financial assets and the range of reasonable fair values is significant and these estimates cannot be made reliably, then the financial assets is measured at cost less impairment.

3.4 PROVISIONS

Provisions for employee benefits

EUR '000		2017	2016
Provisions at 1 January		**859**	**580**
Change in long-term employee bonus provision		176	152
Paid employee bonus		-147	-
Change in provision for employee earned leave days		215	-
Change in holiday provisions for employees		100	127
Provisions at 31 December		**1,203**	**859**
Recognised in the balance sheet as follows:			
Non-current	B/S	-	236
Current	B/S	1,203	623
Total trade and other receivables		**1,203**	**859**

SIGNIFICANT ESTIMATES AND ASSUMPTIONS

The determination of provisions is based on management's best estimate of future events and is therefore subject to significant uncertainty. The employee bonus programme is based on realised EBITDA and revenue figures. It is estimated that the target will be met for the short- and long-term bonus. This results in a net change in bonus provision with EUR 29k in 2017. It is expected that the short-term and long-term bonus will be paid in 2018.

Holiday provisions are estimated based on employee turnover, number of expected vacation days, and future salary increases. The provision is increased with EUR 100k, due to the increase in employees.

ACCOUNTING POLICIES

Provisions are recognised when, as a consequence of an event that has occurred before or on the reporting date, the Group has a legal or constructive obligation, and it is likely that economic benefits will flow from the company to meet the obligation. Employee benefits include provision for employee bonus, both short-term and long-term, earned leave days and holiday provision.

Employee bonus

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the company's shareholders. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Earned leave days

During the year vessel staff earn overtime (earned leave days). A liability and an expense for earned leave days has been recognised, at the amounts expected to be paid when the liabilities are settled. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Holiday provision

Liabilities for holiday provisions are expected to be settled within 12 months after the end of the period in which the employees render the related service and are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

Post-employment obligations

The Group operates only post-employment schemes, which is defined as contribution pension plans. For defined contribution plans, the Group pays contributions to publicly and /or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee expense (pension - defined contribution plans) when they are due.

3.5 TRADE AND OTHER RECEIVABLES

EUR '000		2017	2016
Trade receivables		3,554	4,183
Provision for impairment		-	-
Other receivables		37	119
Intercompany receivables		140	29
Prepayments		197	124
Total trade and other receivables	**B/S**	**3,928**	**4,455**
Recognised in the balance sheet as follows:			
Non-current		-	-
Current		3,928	4,455
Total		**3,928**	**4,455**

The carrying amount of receivables is in all material respects equal to the fair value.

Trade receivables of a total of EUR 40k were overdue by less than 60 days at 31 December 2017. All payments were received during January 2018. (2016: Trade receivables of a total of EUR 846k were overdue by less than 30 days at 31 December 2016. All payments were received during January 2017).

SIGNIFICANT ESTIMATES AND ASSUMPTIONS – TRADE RECEIVABLE

Provisions for bad debts are determined on the basis of customers' ability to pay, considering historical information about payment patterns, doubtful debts, customer concentrations, customer creditworthiness and collateral received as well as prevailing economic conditions. Estimates made are updated if the debtor's ability to pay changes.

Management estimated that there are no need for provisions on receivables at 31 December 2017 (2016: No provision on receivables).

ACCOUNTING POLICIES

Trade receivables

Trade receivables are recognised at amortised cost less provision for impairment when it is assessed that an objective indication of impairment has occurred. Impairment is performed on an individual basis.

Other receivables and prepayments

Other receivables comprise deposits and other receivables.

Prepaid expenses comprise expenses paid relating to subsequent financial years such as rent, insurance premiums, subscription fees and interest and fees.

Other receivables and prepaid expenses are measured at the lower of amortised cost and net realisable value.

3.6 TRADE AND OTHER PAYABLES

EUR '000		2017	2016
Trade payables		712	1,450
Other liabilities		1,296	1,312
Total trade and other payables	**B/S**	**2,008**	**2,762**

ACCOUNTING POLICIES

Trade payables represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Other liabilities represent accruals for primarily interest and VAT.

Trade payables and Other liabilities are presented as current liabilities unless payment is not due within 12 months after the end of the reporting period. They are recognised initially at their fair values and subsequently measured at amortised cost using the effective interest method.

4.1 RISK MANAGEMENT

The Group's risk management is described in the section "Risk management" elsewhere in this annual report. The financial risks are elaborated on below.

Credit risk
Credit risk arises from cash and cash equivalents and trade receivables but is considered to be modest for the Group.

Cash and cash equivalents are only placed with reputable banks.

The Group has not suffered any losses from any single major debtor in the last couple of years. The Group's customers are primarily large international utilities and wind turbine manufacturers with a strong financial position.

Liquidity risk
Liquidity risk includes the risk of the Group becoming short of liquidity and unable to refinance its maturing credit lines as and when needed. ZITON completed a revised financial structure in November 2015, obtaining a solid capital structure with subordinated loans maturing, in December 2019 and the bond issue maturing in November 2019.

The terms to maturity of financial assets and liabilities are disclosed by category and class distributed on maturity periods. All interest payments and repayments of financial assets and liabilities are based on contractual agreements.

	Maturities				
EUR '000	in 2018	Between 2019 to 2021	2022 and onwards	Total	Book value
Loans and receivables					
Cash	2,753	-	-	**2,753**	2,753
Trade receivables	3,554	-	-	**3,554**	3,554
Other receivables	37	-	-	**37**	37
Financial liabilities					
Subordinated loans	-	42,998	-	**42,998**	35,560
Bank and bond loans	13,799	93,282	-	**107,081**	90,923
Trade and other payables	712	-	-	**712**	712
Working capital facility, incl. lease liability	55	-	-	**55**	55

Response:
The Group currently has a loan-to-value ratio for its vessels of approx. 58%, which it plans to reduce before refinancing of the bond.

Covenants
The bond loan agreement includes financial covenants that, if broken, involve default on credit facilities. The subordinated capital ratio must not fall below 34% at the end of 2017.

Market risk
Bunker price risk
The Group is exposed to fluctuating bunker prices. Bunker expenses in 2017 amounted to EUR 392k (2016: EUR 280k).

If bunker prices increase by 50%, the Group's expenses are assessed to increase by less than EUR 500k.

Response:
Given the modest impact on cash flows, the Group accepts that bunker expenses will vary and are unpredictable. The Group has chosen not to hedge bunker prices.

4.1 RISK MANAGEMENT (CONTINUED)

Interest rate risk
Most of the Group's financing, including the bond issue with EUR 92.0m outstanding at 31 December 2017, carries a floating rate of interest. Consequently, an increase in the general level of interest rates, as denoted by 3M EURIBOR, will have an adverse effect on the Group's interest expenses.

An increase of 1 percentage point in interest rates would increase interest expenses by approx. EUR 900k. If EURIBOR rates fell below 0%, it would not benefit the Group to any major extent as there is a floor of 0% on ZITON A/S´s bond issue.

Response:
Given the modest impact on cash flows, the group accepts that interest rates will vary. The Group has chosen not to swap floating rate debt into fixed rate debt.

4.2 WORKING CAPITAL FACILITY

EUR '000		2017	2016
Cash and bank overdraft			
Cash and cash equivalents	B/S	2,753	1,944
Working capital facility		-	-2,614
Total	**C/F**	**2,753**	**-670**

At 31 December 2017, total cash at bank included EUR 1,170k in a retention account, in favour of bond amortisation and interest (2016: EUR 1,121k).

At 31 December 2017, the Group had an undrawn working facility with the bank of EUR 6,716k (2016: EUR 4,111k).

4.3 LOANS

2017 EUR '000		Interests type	Current debt	Non-current debt	Total
Subordinated loan		Fixed rate	-	35,560	35,560
Bond		Floating rate	5,437	85,486	90,923
Lease liabilities		Floating rate	55	110	165
Working capital facility		Floating rate	-	-	-
Total loans	**B/S**		**5,492**	**121,156**	**126,648**

Fair value:
At 31 December 2017, the latest trading price quoted for the bond on the Oslo Stock Exchange was 104.63. The fair value (hierarchy level 1) of the bond is equivalent to EUR 96,260k, compared to the carrying amount of 92,000k (adjusted for capitalised fees of EUR 1,077k).
The fair value of the remaining loans are equivalent to the carrying amounts. Hence, the total fair value of loans at 31 December 2017 was EUR 131,985k, excluding capitalised fees of EUR 1,077k.

Financial covenants:
BOND: FRN ZITON A/S 2015/2019 - ISIN NO0010751332
Subordinated capital ratio: The Issuer shall at all times maintain a subordinated capital ratio of at least 32% in the first 12 months from the Issue Date and increase it by 1% each subsequent year. At 31 December 2017, the minimum ratio is 34%. The key terms of the bond is listed below accounting policies.

4.3 LOANS (CONTINUED)

2016 EUR '000		Interests type	Current debt	Non-current debt	Total
Subordinated loan		Fixed rate	-	32,373	32,373
Bond		Floating rate	4,937	90,919	95,856
Lease liabilities		Floating rate	39	-	39
Working capital facility		Floating rate	2,614	-	2,614
Total loans	**B/S**		**7,590**	**123,292**	**130,882**

Fair value:
At 31 December 2016, the latest trading price quoted for the bond on the Oslo Stock Exchange was 97.67. The fair value (hierarchy level 1) of the bond is equivalent to EUR 95,228k, compared to the carrying amount of 97,500k (adjusted for capitalised fees of EUR 1,644k). The fair value of the remaining loans are equivalent to the carrying amounts. Hence, the total fair value of loans at 31 December 2016 was EUR 130,254k, excluding capitalised fees of EUR 1,644k.

Financial covenants:
BOND: FRN ZITON A/S 2015/2019 - ISIN NO0010751332
Subordinated capital ratio: The Issuer shall at all times maintain a subordinated capital ratio of at least 32% in the first 12 months from the Issue Date and increase it by 1% each subsequent year. At 31 December 2016, the minimum ratio is 33%.

ACCOUNTING POLICIES

Loans are initially recognised at fair value, net of transaction costs incurred. Loans are subsequently measured at amortised cost.

Loans are derecognised from the balance sheet when the obligation specified in the contract is discharged, cancelled or has expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Loans are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Key terms for the BOND: FRN ZITON A/S 2015/2019 - ISIN NO0010751332

Coupon	Floating rate note 3m EURIBOR (floor at 0%) + 8.5% p.a. Quarterly coupon payments
Issue size	EUR 100 million
ISIN & listing	ISIN: NO0010751332. Listed on the Oslo Stock Exchange
Maturity	26 Nov 2019
Maintenance covenant	Subordinated capital ratio >34% at 31 December 2018 (increasing by 1%-point annually)
Call option	Make whole first 2 years at 104.31+PV of remaining interest. Thereafter 104.31/103.02/101.72/100.43 after 24/30/36/42 months respectively
Change of control	Change of control with new owner obtaining above 50% ownership allows bondholders to sell the bond at 101.00
Security	1st lien security in J/U WIND SERVER, J/U WIND PIONEER and J/U WIND
Amortisation	2.5 MEUR semi-annually from 12 months after issue date 3.0 MEUR semi-annually from 24 months after issue date
Cash sweep	Semi-annual (30.06 & 31.12) cash sweep of cash in excess of 5 MEUR in free liquidity (at 102% of par)
Carve out for negative pledge	WCF of 50 MDKK + performance guarantees. Financial lease etc. limited to 0.5 MEUR
CAPEX restrictions	Newbuild CAPEX limited to 2 MEUR during tenor. Any debt on a non-recourse basis to ZITON.
Capital distribution	No distribution of dividend or repayment of subordinated capital (net)

4.4 NET FINANCIAL EXPENSES

EUR '000		2017	2016
Financial income:			
Foreign exchange gains on financing activities		-	949
Other		-	5
Total financial income	**I/S**	**-**	**954**
Interest expense			
Subordinated loans		3,883	3,535
Bank loans		161	317
Transaction costs		590	581
Bond loans		8,227	8,679
Finance lease liabilities		7	2
Foreign exchange loss on financing activities		114	750
Other interest expense		186	275
Total financial expenses		**13,168**	**14,140**
Net financial expenses		**13,168**	**13,186**

ACCOUNTING POLICIES

Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Any difference between the proceeds of loans (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the loans using the effective interest method, as transaction costs.

Other borrowing costs are expensed in the period in which they are incurred.

4.5 RECONCILIATION OF FINANCING LIABILITIES

			Non-cash changes			
EUR '000	2016	Cash flow	Other non-cash movements	Non-cash interest	Foreign exchange movements	2017
Subordinated loans	32,373	-	-	3,236	-49	35,560
Bond loan	90,919	-5,500	63	-	4	85,486
Bond loan - current liability	4,937	-	500	-	-	5,437
Lease liabilities	-	-66	176	-	-	110
Lease liabilities - current liability	39	-39	55	-	-	55
Cash	670	-3,427	-	-	4	-2.753
Net financial expenses	**128,938**	**-9,032**	**794**	**3,236**	**-41**	**123,895**

Other non-cash movements

Other non-cash movements for bond loan totals EUR 563k which is equivalent of the change in capitalised transaction cost during 2017.

Total additions and disposals of financial lease liabilities and expensed financial lease interest totals EUR 231k in 2017, which makes up the total Other non-cash movements for lease liabilities.

5.1 INCOME TAX EXPENSE

Income tax expense

EUR '000		2017	2016
Current tax:			
Current tax on income for the year		-	-
Adjustments in respect of prior years - current tax		-	-
Total current tax		**-**	**-**
Deferred tax (note 5.2):			
Deferred tax on the income (profit/loss) for the year		-1,255	-1,229
Adjustments in respect of prior years - deferred tax		112	-25
Total deferred tax		**-1,143**	**-1,254**
Income tax expense	**I/S**	**-1,143**	**-1,254**

The tax on the Group's profit differs from the theoretical amount that would arise using the Danish tax rate to profits of the consolidated entities as follows:

Reconciliation of tax rate

EUR '000	2017	2016
Profit/loss before tax	**-1,841**	**-4,550**
Danish tax rate 22%	**405**	**1,001**
Deviation in foreign subsidiaries' tax rates compared to the Danish tax rate	-1,157	-944
Notional interest on equity (Malta)	926	-
Non-deductible interest	-1,387	-1,268
Other adjustments	-42	-18
Income tax expense for the year	**-1,255**	**-1,229**

ZITON incurred a loss of EUR 1.8m for 2017, but the taxable income was a profit of EUR 5.7m, resulting in a tax expense of EUR 1.3m. The difference between the reported loss of EUR 1.8m and the taxable income of EUR 5.7m is due to the effect of the Malta tax rate of 35% and non-deductible interest in Denmark. On the other hand, the use of notional interest on equity financing in Malta partly offset the higher income tax percentage in Malta.

The reason for the tax expense of EUR 1.2m in 2016 was the effect of the Malta tax rate of 35% and non-deductible interest in Denmark. Hence, the taxable income is a profit of EUR 5.6m, resulting in a taxable expense of EUR 1.2m.

ACCOUNTING POLICIES

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unutilised tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

5.2 DEFERRED TAX

EUR '000	2017	2016
Deferred tax 1 January	-2,441	-1,209
Currency translation	2	-7
Change in deferred tax - recognised in the income statement	-1,143	-1,229
Adjustments related to previous years	-113	4
Total deferred tax, net at 31 December	**-3,695**	**-2,441**
Deferred tax gross:		
Deferred tax asset	5,945	5,122
Deferred tax liabilities	-9,640	-7,563
Total deferred tax, net at 31 December	**-3,695**	**-2,441**

Specification of deferred tax

EUR '000	2017	2016
Vessel and equipment	-9,640	-7,563
Tax-loss carry forwards	5,945	5,122
Total deferred tax at 31 December	**-3,695**	**-2,441**

Deferred tax in balance sheet

EUR '000		2017	2016
Deferred tax assets	B/S	334	-
Deferred income tax liabilities	B/S	-4,029	-2,441
Total deferred tax at 31 December		**-3,695**	**-2,441**

In 2017, total deferred tax consists of a liability from Jack-Up InvestCo 3 Plc. of EUR 4,029k and a deferred tax asset of EUR 334k concerning Danish joint taxation, for a total of EUR 3,695k. In 2016, total deferred tax consisted of an asset from Jack-Up InvestCo 3 Plc. of EUR 1,799k and a deferred tax asset of EUR 642k concerning Danish joint taxation, for a total of EUR 2,441k.

SIGNIFICANT ESTIMATES AND ASSUMPTIONS
Deferred tax is recognised based on the assumption that ZITON A/S continues under the corporate tax regime, and on expectations of future activity.

5.2 DEFERRED TAX (CONTINUED)

ACCOUNTING POLICIES

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

ZITON A/S is jointly taxed with the subsidiaries Jack-Up InvestCo 2 A/S and ZITON Contractors A/S, and the parent company Jack-up Holding A/S and the ultimate parent company Anpartsselskabet af 1. december 2011. Anpartsselskabet af 1. december 2011 is the administration company for the jointly taxed companies. The current Danish corporation tax is allocated between the jointly taxed companies in proportion to their taxable income.

6.1 COMMITMENTS AND CONTINGENCIES

Commitments (operating lease arrangements)
Operating leases relate to leases of office and cars.

Recognised in the income statement in respect of rentals incl. commitments

EUR '000	2017	2016
Recognised in the income statement in respect of rentals	161	230
Lease commitments:		
0 - 1 year	103	123
1 - 5 years	127	108
After 5 years	-	-
Total lease commitments	**230**	**230**

SIGNIFICANT ESTIMATES AND ASSUMPTIONS

Management's assessment of whether leases of assets should be classified as finance or operating leases is based on an overall evaluation of each lease. In finance leases, a non-current asset and a payable are recognised. In classification as operating leases, the regular lease payments are generally recognised in the income statement.

ACCOUNTING POLICIES

Agreements to charter vessels and to lease other tangible assets where all substantial risks and rewards of ownership have been transferred to the Group (finance leases) are recognised in the balance sheet (Note 3.1 - Vessels and equipment). Other agreements to charter vessels and other leases are considered operating leases. Payments in connection with operating leases are recognised on a straight-line basis in the income statement over the terms of the leases.

Contingencies

Security
In November 2015, the company issued a bond for an amount of EUR 100,000k and obtained a working capital facility consisting of an overdraft facility and performance guarantees. The overdraft facility is limited to DKK 50,000k (EUR 6,702k). The bondholders and the provider of the working capital facility have entered into an intercreditor agreement sharing the following security:

- The Group's three vessels (J/U WIND, J/U WIND PIONEER and J/U WIND SERVER) with a total carrying amount of EUR 153,936k (2016: EUR 160,938k) have been pledged for a total amount of EUR 195,003k (2016: EUR 195,003k).
- The Group's deposit from time to time held in a retention account with SEB.
- The Group's entitlements under insurances related to its three vessels (J/U WIND, J/U WIND PIONEER and J/U WIND SERVER) other than third-party liability insurances.
- The Group's rights and entitlements under the three-year charter of J/U WIND SERVER to Siemens Gamesa Renewable Energy A/S.

Guarantees
As part of the working capital facility, the Group's bank has provided a performance guarantee in connection with the three-year charter of J/U WIND SERVER to Siemens Gamesa Renewable Energy A/S. The guarantee amounts to EUR 2,961k (2016: EUR 5,330k), with a quarterly adjustment during the lifetime of the charter. The guarantee is an on-demand guarantee and serves to guarantee the full and punctual performance of ZITON A/S's obligations and payment of any sums that ZITON A/S is liable to pay under or in connection with the charter contract. The executed guarantee has been delivered to charterers ninety days prior to the delivery date, and shall remain valid until ninety days after the expiry of this charter contract.

A performance guarantee is provided by the Group's bank, covering decommissioning work in the United Kingdom in 2018. The guarantee amounts to EUR 1.732k (2016: EUR 0k) and expires on 16 October 2018 or upon completion of the decommissioning.

Unrecognised contingent liabilities
There are pending disputes with individual suppliers. Management believes that the outcome of these will not have a material impact on the Group's financial position.

6.1 COMMITMENTS AND CONTINGENCIES (CONTINUED)

SIGNIFICANT ESTIMATES AND ASSUMPTIONS

Information on contingent assets and liabilities and when recognition should be made as an asset and a liability, respectively, is based on assessments of the expected outcome of each claim. The assessments are made on the basis of legal assessments of the signed agreements, which in substantial claims also include assessments obtained from external advisors, including lawyers.

ACCOUNTING POLICIES

Contingent assets are recognised when it is practically certain that the claim will have a positive outcome for the Group. A contingent liability is recognised if it is likely that the claim will have a negative outcome and when it is possible to estimate the amount. If this is not the case, the matter is an unrecognised contingent liability.

6.2 SHARE-BASED PAYMENTS

The Group established two warrant programmes in 2012: one for management and selected employees and one for a subordinated loan provider. The value of the warrants granted in 2012 has decreased due to the capital increase by conversion of debt to equity in 2014 and a cash payment in 2015. In line with the warrant agreement from 2012, the Board of Directors has approved an adjustment of the number of warrants to management and selected employees in 2016.

Management and selected employees (granted in 2012):
The warrants may be exercised in whole or in part during a 10-year period from the date of the holder's subscription for warrants. Each warrant entitles the holder to subscribe for one share of DKK 1 nominal value at a price of DKK 23.98 plus 7% p.a. as from the date of subscription for the warrants until the date of the holder's payment of the subscription amount. If changes are made to the company's capital structure involving a reduction or increase in the value of the warrants, the company's Board of Directors must adjust the subscription price and/or the number of warrants, as applicable, to ensure that the value of the warrants remains unaffected by the change.

Subordinated loan provider (granted in 2012):
The warrants may be exercised, in whole or in part, prior to the final repayment date in 2019. Each warrant shall provide the warrant holder with a right, but not an obligation, to subscribe for one share with a nominal value of DKK 1 in the company for an amount of DKK 23.98 (the "Subscription Price"). If changes to the capital structure of the company are implemented, causing the value of the warrants to increase or decline, an adjustment of the Subscription Price will, depending on the circumstances, be made so that the value of the warrants remains unaffected by the changes.

Management and selected employees (granted in 2016):
The Board of Directors has approved an adjustment of the number of warrants to management and selected employees by 138,645 additional warrants in 2016. The warrants carry a fair value of EUR 0, as the value has already been recognised in previous years.
Furthermore, the Board of Directors has decided to grant 20,849 additional warrants to management based on the 2012 warrant programme. The warrants carry a fair value of EUR 7k.

2017 Warrants – amount and value in EUR	Staff expenses Management	 Employees	Interest Subordinated loan provider	Total
Outstanding warrants at 1 January 2017	327,329	51,078	99,500	477,907
Outstanding warrants at 31 December 2017	**327,329**	**51,078**	**99,500**	**477,907**
Number of exercisable options at 31 December 2017				**477,907**
Fair value at the time of grant (EUR ´000)	**68**	**10**	**64**	**143**

No warrants were exercised or cancelled in 2017. The fair value of the warrants is fully recognised, hence there was no effect in the income statement or equity during 2017.

6.2 SHARE-BASED PAYMENTS (CONTINUED)

ACCOUNTING POLICIES

The Group has established a share-based equity-settled incentive programme. The fair value of the employee services received in exchange for the grant of warrants is calculated using the value of the warrants. The fair value of share-based payment on the grant date is recognised as a staff expense or interest over the period in which the stock options vest. In measuring the fair value, the calculation is based on ”Ligningsrådets formel” (Tax approved valuation calculation) and is calculated at EUR 143k, based on a discount rate of 2%. The value of equity-settled programmes is recognised in shareholders' equity.

2016 Warrants – amount and value in EUR	Staff expenses Management	 Employees	Interest Subordinated loan provider	Total
Outstanding warrants at 1 January 2016	187,641	31,272	99,500	318,413
Granted in 2016	139,688	19,806	-	159,494
Outstanding warrants at 31 December 2015	**327,329**	**51,078**	**99,500**	**477,907**
Number of exercisable options at 31 December 2016				**477,907**
Fair value at the time of grant (EUR´000) at 1 January 2016	61	10	64	136
Fair value for granted warrants in 2016	7	-	-	7
Fair value at the time of grant (EUR´000) at 31 December 2016	**68**	**10**	**64**	**143**

No warrants were exercised or cancelled in 2016. The fair value of the new warrants granted in 2016 was fully recognised, and an expense of EUR 7k was recognised in the income statement and in equity.

6.3 FEES TO AUDITORS

The Group's fees to auditors appointed by the Annual General Meeting, is listed below:

Fees to auditors appointed by the Annual General Meeting

EUR '000	2017	2016
BDO Statsautoriseret revisionsaktieselskab		
Statutory audit	35	25
Assurance engagements	2	-
Tax advisory	7	5
Other services	13	12
Total	**57**	**42**

6.4 RELATED PARTY TRANSACTIONS

The Group's transactions with related parties consist of remuneration to members of the Executive Management and the Board of Directors and trading with related parties.

Remuneration

	Executive Management		Board of Directors	
EUR '000	2017	2016	2017	2016
Wages and salaries	326	288	50	30
Pensions – defined contributions plans			-	-
Other social security costs	0	0	-	-
Total	**326**	**288**	**50**	**30**

See note 6.2 for a description of the share-based payment.

Trading and accounts with related parties

EUR '000	2017	2016
Balance sheet items:		
Intercompany balances		
Effect of joint taxation with Jack-Up Holding A/S and Anpartsselskabet af 1. december 2011 ApS	140	29

No other material transactions took place during the year with the Board of Directors, the Executive Management, major shareholders or other related parties.

ACCOUNTING POLICIES

ZITON A/S is controlled by Jack-Up Holding A/S, which holds 59.5% of the share capital in ZITON A/S. Dansk Bjergning & Bugsering Holding ApS and OY Finans ApS hold 25.1% and 14.8% of the share capital respectively.

The ultimate controlling party of the Group is Jack-Up Holding A/S's holding company Anpartsselskabet af 1. december 2011 ApS.

The above-mentioned companies are considered related parties, including their subsidiaries and associates, members of the boards of directors and executive managements of these entities together with their immediate families.

Furthermore, ZITON's subsidiaries, as well as members of the Board of Directors and the Executive Management of ZITON A/S together with their immediate families, including companies in which the above persons have control or joint control, are considered related parties.

All agreements relating to these transactions are based on market prices (arm's length).

6.5 SUBSEQUENT EVENTS

No significant events have occurred between the reporting period and the publication of the annual report that have not been included and adequately disclosed in the annual report and that materially affect the income statement, balance sheet and disclosure requirements.

The financial statements were approved by the Board of Directors and at the Annual General Meeting to be authorised for issue on 19 April 2018.


ZITON

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INCOME STATEMENT
1 JANUARY - 31 DECEMBER

		PARENT COMPANY	
EUR '000	Note	2017	2016
Revenue		**33,202**	**29,042**
Project-related expenses		-1,445	-1,161
Operating expenses		-27,601	-28,182
Gross profit		**4,156**	**-301**
Administrative expenses		-1,628	-1,269
Staff costs	2.1	-6,385	-5,365
EBITDA		**-3,857**	**-6,935**
Depreciation and amortisation	3.3	-2,221	-2,095
EBIT		**-6,078**	**-9,030**
Income from equity investment		3,318	2,329
Financial income	2.2	11,251	12,055
Financial expenses	2.2	-16,553	-15,747
Income before tax		**-8,062**	**-10,393**
Tax on profit (loss)	2.3	1,742	2,209
Income for the year		**-6,320**	**-8,184**

BALANCE SHEET AT 31 DECEMBER – **ASSETS**

		PARENT COMPANY	
EUR '000	Note	2017	2016
Intangible assets	3.1	105	-
Intangible assets		**105**	**-**
Vessel	3.2	22,357	24,283
Fixtures & equipment	3.2	439	252
Tangible assets		**22,796**	**24,535**
Investments in Jack-Up InvestCo 2 A/S	3.3	-	-
Investments in ZITON Contractors A/S	3.3	-	-
Investment in Jack-Up InvestCo 3 plc.	3.3	19,039	15,708
Deferred tax asset	3.4	3,118	1,425
Financial assets	3.3	6,055	6,057
Long-term receivable in Jack-Up InvestCo 2 A/S		73,087	68,694
Long-term receivable in Jack-Up InvestCo 3 Plc.		66,644	63,284
Financial assets		**167,943**	**155,168**
Inventories		39	-
Trade receivables		3,554	4,183
Intercompany receivable, ZITON Contractors A/S		358	-
Intercompany receivable, associated companies		26	-
Other receivables		36	117
Prepayments		196	123
Cash and cash equivalents		2,664	1,884
Current assets		**6,873**	**6,307**
Total assets		**197,717**	**186,010**

BALANCE SHEET AT 31 DECEMBER
– EQUITY AND LIABILITIES

		PARENT COMPANY	
EUR '000	Note	2017	2016
EQUITY			
Share capital		11,093	11,093
Reserves		3,634	302
Retained earnings		68	9,724
Total equity		**14,795**	**21,119**
LIABILITIES			
Other provisions		-	236
Subordinated loans	4.1	35,560	32,373
Bond loans	4.1	85,596	90,919
Total non-current liabilities		**121,156**	**123,528**
Other provisions		1,190	623
Current portion of long-term loans	4.1	5,492	4,974
Debt to bank - Bank overdraft		-	2,615
Trade payables		648	1,234
Intercompany payable, associated companies		-	92
Intercompany payable, ZITON Contractors A/S		9	-
Intercompany payable, Jack-Up InvestCo 2 A/S		16,963	9,987
Intercompany payable, Jack-Up InvestCo 3 plc.		35,402	19,725
Other liabilities		2,062	2,113
Total current liabilites		**61,766**	**41,363**
Total liabilities		**182,922**	**164,891**
Total equity and liabilites		**197,717**	**186,010**

STATEMENT OF CHANGES IN EQUITY

2017 EUR '000	Share capital	Reserve for warrants	Translation reserves	Reserve for equity value	Total reserves	Retained earnings	Total equity
	PARENT COMPANY						
Balance at 31 December 2016	**11,093**	**143**	-	**159**	**302**	**9,724**	**21,119**
Exchange rate adjustments		-	-	-	-	-21	-21
Total comprehensive Income for the year, after tax	-	-	-	3,315	3,315	-9,635	-6,320
Exchange rate adjustment of Jack-Up InvestCo 3 plc.	-	-	17	-	17	-	17
Balance at 31 December 2017	**11,093**	**143**	**17**	**3,474**	**3,634**	**68**	**14,795**

Share capital

At the end of 2017, the share capital consisted of 82,782,192 shares of DKK 1 each (EUR 11,093K). The shares are divided into two classes: 11,118,416 A shares of DKK 1 each and 67,663,782 B shares of DKK 1 each. Each A share carries one vote, while B shares do not carry voting rights, but carry preferential rights of dividend.

Specification of movements in the share capital

EUR´000	2017	2016	2015	2014	2013
Share capital	11,093	11,093	11,093	7,763	2,026

NOTES TO THE FINANCIAL STATEMENTS

1.1 BASIS OF REPORTING

ACCOUNTING POLICIES

The financial statements of ZITON A/S have been prepared in accordance with the provisions for class D enterprises of the Danish Financial Statements Act.

As the accounting policies of ZITON A/S differ from those of the Group, which follows IFRS, with respect to only a few items, only policies that differ from those of the Group's are detailed below. Reference is made to the accounting policies of the ZITON Group for the other items.

The accounting policies of the parent company, including presentation, are unchanged compared to last year.

Income statement and balance sheet

Earnings from equity investments

Earnings from investments in subsidiaries and joint ventures. In the parent company income statement, the proportional share of earnings is recognised under the item "Income from equity investment".

Investments in Jack-Up InvestCo 2 A/S and Jack-Up InvestCo 3 Plc.

Investments in Jack-Up InvestCo 2 A/S, ZITON Contractors A/S and Jack-Up InvestCo 3 Plc. are recognised and measured according to the equity method.

The proportional ownership share of the companies' net asset value is recognised in the balance sheet under the items "Investments in Jack-Up InvestCo 2", "Investments in ZITON Contractors A/S" and "Investment in Jack-Up InvestCo 3 Plc.".

The total net revaluation of investments in subsidiaries is transferred through the distribution of profits to "Reserve for equity value" under equity. The reserve is reduced by dividend payments to the parent company and is adjusted for other changes in equity in subsidiaries.

Subsidiaries with negative net asset value are recognised at EUR 0 million, and a provision to cover the negative balance is recognised.

Other accounting policies

With reference to the provisions of the Danish Financial Statements Act, the parent company has refrained from preparing a cash flow statement. For this information, see the consolidated financial statements of the ZITON Group.

2.1 STAFF COSTS

Total staff costs

EUR '000		PARENT COMPANY 2017	PARENT COMPANY 2016
Staff costs			
Wages and salaries		5,889	4,945
Pensions - defined contributions plans		441	353
Other social security costs		55	67
Total staff costs	**I/S**	**6,385**	**5,365**
of which remuneration to:			
Management [1)]		326	288
Board of Directors		50	30

1) Executive Management registered with the Danish Business Authority (Erhvervsstyrelsen)

Average number of employees

	2017	2016
Total employees	**96**	**90**

2.2 NET FINANCIAL EXPENSES

EUR '000		PARENT COMPANY 2017	PARENT COMPANY 2016
Financial income			
Financial income, related parties		11,251	11,102
Other financial income		-	953
Total financial income	**I/S**	**11,251**	**12,055**
Financial expense			
Financial expenses, related parties		3,386	1,610
Other financial expenses		13,167	14,137
Total financial expenses	**I/S**	**16,553**	**15,747**
Net financial expenses		**-5,302**	**-3,692**

2,3 INCOME TAX EXPENSE

EUR '000		PARENT COMPANY 2017	PARENT COMPANY 2016
Current tax			
Current tax on income for the year		-	-
Adjustments in respect of prior years - current tax		-	-
Total current tax		-	-
Deferred tax (note 3,4):			
Deferred tax on the income (profit/loss) for the year		1,695	2,209
Adjustments in respect of prior years - deferred tax		47	-
Total deferred tax		**1,742**	**2,209**
Income tax expense	**I/S**	**1,742**	**2,209**

3.1 INTANGIBLE ASSETS

2017 EUR '000		PARENT COMPANY Software	Total
Cost at 1 January		-	-
Exchange rate adjustments		-	-
Additions		108	108
Disposals		-	-
Cost at 31 December		**108**	**108**
Depreciation at 1 January		-	-
Exchange rate adjustments		-	-
Depreciation		-3	-3
Disposals		-	-
Depreciation at 31 December		**-3**	**-3**
Impairment losses at 1 January		-	-
Impairment losses at 31 December		-	-
Carrying amount at 31 December	**B/S**	**105**	**105**
– of which capitalised interests		-	-
– of which car finance leases		-	-

3.2 VESSELS AND EQUIPMENT

2017 EUR '000		PARENT COMPANY Fixtures & equipment	Vessel	Total
Cost at 1 January		437	36,920	37,357
Exchange rate adjustments		1	-53	-52
Additions		390	316	706
Disposals		-201	-115	-316
Cost at 31 December		**627**	**37,068**	**37,695**
Depreciation at 1 January		-185	-12,637	-12,822
Exchange rate adjustments		-	18	18
Depreciation		-114	-2,101	-2,215
Disposals		111	9	120
Depreciation at 31 December		**-188**	**-14,711**	**-14,899**
Impairment losses at 1 January		-	-	-
Impairment losses at 31 December		-	-	-
Carrying amount at 31 December	**B/S**	**439**	**22,357**	**22,796**
– of which capitalised interests		-	-	-
– of which car finance leases		195	0	195

3.3 FINANCIAL ASSETS

		PARENT COMPANY			
2017 EUR '000		Equity investment in Jack-Up InvestCo 3 Plc.	Equity investment in Jack-Up InvestCo 2	Equity investment ZITON Contractors	Total
Cost at 1 January		14,001	740	-	14,741
Exchange rate adjustments		-	-1	-	-1
Additions		0	3	64	67
Cost at 31 December		**14,001**	**742**	**64**	**14,807**
Adjustments at 1 January		1,707	-1,551	-	156
Exchange rate adjustments		-5	2	-	-3
Profit during the year		3,336	189	-207	3,318
Adjustments at 31 December		**5,038**	**-1,360**	**-207**	**3,471**
Total		**19,039**	**-618**	**-143**	**18,278**
Transfer to other liabilities		-	618	143	761
Carrying amount at 31 December	**B/S**	**19,039**	**-**	**-**	**19,039**

Jack-Up InvestCo 3 Plc. (registered office: Qormi, Malta (share of ownership 50%))
Jack-Up InvestCo 2 A/S (registered office: Horsens, Denmark (share of ownership 100%))
ZITON Contractors A/S (registered office: Horsens, Denmark (share of ownership 100%))

3.4 DEFERRED TAX

		PARENT COMPANY	
EUR '000		2017	2016
Deferred tax 1 January		1,425	177
Currency translation		-	1
Change in deferred tax - recognised in the income statement		1,740	2,213
Utilisation of tax loss in joint taxation		-	-967
Adjustments related to previous years		-47	2
Adjustment to deferred tax asset		-	-1
Total deferred tax, net at 31 December	**B/S**	**3,118**	**1,425**
Deferred tax gross			
Deferred tax asset		5,487	4,259
Deferred tax liabilities		-2,369	-2,834
Total deferred tax, net at 31 December	**B/S**	**3,118**	**1,425**

4.1 LOANS

		PARENT COMPANY			
		Current debt	Non-current debt		
2017 EUR '000		0-1 year	1-5 years	After 5 years	Total
Subordinated loans		-	35,560	-	35,560
Bonds		5,437	85,486	-	90,923
Lease liabilities		55	110	-	165
Total	**B/S**	**5,492**	**121,156**	**-**	**126,648**

		Current debt	Non-current debt		
2016 EUR '000		0-1 year	1-5 years	After 5 years	Total
Subordinated loans		-	32,373	-	32,373
Bonds		4,937	90,919	-	95,856
Lease liabilities		37	-	-	37
Total	**B/S**	**4,974**	**123,292**	**-**	**128,266**

4.2 PROPOSED DISTRIBUTION OF PROFIT

	PARENT COMPANY	
EUR '000	2017	2016
Reserve for equity value	3,315	159
Accumulated profit (loss)	-9,635	-8,343
Proposed distribution of profit	**-6,320**	**-8,184**

5.1 COMMITMENTS AND CONTINGENCIES

Commitments (operating lease arrangements)
See note 6.1 to the consolidated financial statements.

Contingencies

Security
A vessel with a total carrying amount of EUR 22,357k (2016: EUR 24,283k) has been pledged as security for bond and bank debt at a total carrying amount of EUR 40,002k (2016: EUR 40,002k).

ZITON A/S has pledged the shares in the 50% ownership in Jack-Up InvestCo 3 Plc. and the shares in the wholly owned Jack-Up InvestCo 2 A/S. Furthermore, all intercompany receivables have been pledged as security for bond and bank debt.

Guarantees
See note 6.1 to the consolidated financial statements.

Unrecognised contingent liabilities
See note 6.1 to the consolidated financial statements.

5.2 SHARE-BASED PAYMENTS

See note 6.2 to the consolidated financial statements

5.3 FEES TO AUDITORS

See note 6.3 to the consolidated financial statements

5.4 RELATED PARTY TRANSACTIONS

See note 6.4 to the consolidated financial statements.

All agreements relating to transactions between ZITON A/S and subsidiaries are based on market prices (arm's length).

The ownership share above 5% is listed on page 14 in the consolidated financial statements.

5.5 SUBSEQUENT EVENTS

See note 6.5 to the consolidated financial statements


ZITON


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ARNOLD

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